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I. THE FAILURE OF COMMUNIST PLANNING IN HUNGARY.

collectivist
Is ~~economic~~ planning conceivable?

Before ~~starting~~ ^{examining} with this question we ~~must~~ ^{would like to} emphasize that in this essay ~~we~~ we shall deal only with the collectivist form of planning: i.e. planning in a society where the means of production are mainly public property, the production decisions and the determination of prices are being made by central authorities. We shall not examine the democratic forms of planning, a wide variety of which exists in the Western capitalist and in the overseas underdeveloped countries. Therefore using the word "planning" we always mean collectivist economic planning in the sense used above.

In the last decades a great number of outstanding economists discussed the problems of collectivist economic planning. We do not intend to examine ~~start here~~ ^{here} with these views only to deal with some of them as for our ^{later} treatment of the Hungary economy might seem to be necessary,

Some enthusiastic supporters of the liberal solution argued that economic planning was quite impossible. Among others Professor Mises and partly Professor Hayek held this view. The concept of the impossibility of economic planning was later substituted by the notion of the irrational-

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lity of planning. To quote Professor Mises: "Socialism is the abolition of rational economy." (Ludwig von Mises: Economic Calculation in the socialist commonwealth. Collectivist economic planning. Edited by F.A. Hayek. London, 1935. p. 100). Perhaps this line of thought can be even better characterized by another assertion of Professor Mises: "Where there is no free market, there is no pricing mechanism, without a pricing mechanism, there is no economic calculation." (ibid. p. 111.)

Professor Mises maintained the view that planning is an irrational form of economic activity and he sees no possibility for calculation in a collectivist economy taking into account the lack of the price mechanism and the free formation of prices.

The formulation of Professor Hayek is already more cautious: "...it is not the possibility of planning as such which has been questioned on the grounds of general considerations, but the possibility of successful planning of achieving the ends for which planning was undertaken." (Von Hayek: The present state of the debate. Collectivist... p. 203.) On the other hand principally the Marxists economists supported wholeheartedly the cause of collectivist planning. In this connection there is no considerable difference between the opinion of the Soviet economists and that of the Marxists in the Western countries e.g. P.M. Sweezy in the U.S. or Maurice Dobb in England.

Beside the Marxist economists some authors not entirely accepting the Marxist system but partly or entirely rejecting it favored the solution of collectivist planning. We might mention the famous article of Professor Lange in 1935, the name of Dickinson and of others.

Furthermore many economists who have been in favor of the capitalist form of society elaborated possible solutions for the event of a collectivist form of society (e.g. Professor Bergson and others). Some economists who formerly asserted the superiority of the capitalist

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have arrived to the idea that some form of collectivist planning is the solution for the deficiencies of present day's capitalism. Others have arrived to the conclusion that socialism ^{was} inevitable (e.g. Professor Schumpeter)

The idea of collectivist economic planning was favored in the period following the great depression. The theories of Keynes and Hansen encouraged this idea, although they recommended economic planning only in a broader sense : as the systematic intervention of the state in the economic affairs to ensure full employment. Yet from these theories, principally from the stagnation-thesis of Hansen there was no long way to reach the conclusion that the stagnation of the capitalist system implies the eve of a new system, the socialist form of economic planning.

This conclusion has been reached by some of the Labourite economists' e.g. by Thomas Balogh. The conclusions towards a more comprehensive form of planning were greatly enhanced by the second World War. The experiences of the war-economy, the unfavorable economic situation in the Western European countries were chiefly responsible for the considerable increase of state direction in the field of economic activity. This solution was supported by the labourite philosophy of the socialdemocratic governments, mainly in England and the Scandinavian countries.

Nevertheless in the countries where the most conspicuous development of the economy might be observed: e.g. in the United States and in West Germany the role of planning is recognized only in its democratic form: to ensure the high level of activity and to support the individual activity and initiative.

Without assessing the validity or invalidity of these theories we shall examine here the fundamental characteristics of collectivist economic planning.

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The efficiency of collectivist planning.

Dealing with the efficiency of collectivist economic planning we intend to consider here three principal points:

1. The mathematical solution collectivist planning.
2. The production decisions in a collectivist system.
3. The lack of price-mechanism.
4. The lack of competition.
5. The lack of private initiative.
6. Collectivist economic planning ~~and~~ as a form of war-economy.

The mathematical solution for collectivist economic planning was advocated by some authors. According to this theory the central authority has to decide the crucial questions of production, prices and investment by using a complex and comprehensive system of equations which would comprise ^{every variable} ~~the maximum~~ of economic activity. To carry out such a huge task we would need millions and millions of equations. Only the collection of the data would require such an immense apparatus that would withdraw a considerable part of the working force from productive activity. Yet also supposing the collection of every necessary data, the data would become partly obsolete at the time of using them to deduce conclusions.

The impossibility of the mathematical method was well expressed by Barone: "...it is frankly inconceivable that the economic determination of the technical coefficients can be made a priori in such a way as to satisfy the condition of the minimum costs of production which is an essential condition for obtaining that maximum to which we have referred." (E. Barone: The Ministry of Production in the collectivist state. Collectivist...p.237.) More clearly: "Hence ~~that~~ it is not conceivable that with the schedules collected - always supposing the

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technical coefficients known and invariable - it would be possible by paper calculation to ~~find out~~ ^{find out} a series of equivalents which would satisfy the equations expressing the physical necessities of production and the equalization of costs of production and the equivalents which become prices." (ibid. p. 237.)

The production decisions in a collectivist system - lacking a mathematical solution - are made by the planning authorities.

In a capitalist economy the production decisions and consequently the investment decisions are in close connection with the market mechanism. The demand for the goods and the expected future demand influences these decisions. On the other hand the correctness of these decisions are checked by the market.

In a collectivist system there is no market mechanism which would influence the production and investment decisions and check their correctness. The decisions are being made by the planning authorities on an arbitrary system of values. There is no mechanism which would check the correctness of these decisions.

The lack of the price mechanism is another significant feature of the collectivist system.

In a capitalist economy the prices are formed on the free market, prices influence the production and the costs are always checked by the prices.

In a collectivist system the prices are determined by the central authorities. The prices have no effect ~~on the production~~ neither on the production nor on the variation of the costs. The basis of price determination are the historical average costs, therefore there is no suitable measure for rentability. The effect of the price mechanism on the reduction of costs is entirely lacking. Costs and prices represent simply a circulus vitiosus where the dexterity of the ~~man~~

cost calculators is ^{an important} ~~the decisive~~ factor.

The deficiency of the collectivist system due to the lack of competition asserts itself partly by the failure of the system to check the production and investment decisions. Besides we have to emphasize the role of competition in the improvement of the production process. Competition ensures the development of the production process, the improvement of technique through its pressure on the producers. Every entrepreneur has to improve his methods of production, to use new technical methods if he does not want to lose his market.

In the collectivist system competition is lacking. The directors of the firms are not compelled to improve the production process, they might produce further on with the old methods, because the formal rentability of the firm is ensured with the old methods of production too and there is no compelling force in the ~~presence~~ ^{absence} of the competitors.

The private initiative is the engine of the capitalist system. In a collectivist system the profit motive is lacking and there is no adequate substitute which would ensure the maintenance of private initiative. The employees of the state have no initiative to improve the technique, decrease the costs etc. As Professor Mises pointed out: "... there is no internal pressure to reform and improvement of production in socialist undertakings." (ibid. p. 113).

The collectivist economic system can be viewed as a form of a war-economy. If we are examining the history of collectivist planning we find out that it was successful in such sectors where the production can be directed by simple decisions. This is partly responsible for the increase of the coal, iron and steel production, the production of war-materials and equipment in the communist economies. On the other hand

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the decisions concerning directly or indirectly consumption-goods thus the overwhelming part of the economic activity can not be directed by simple decisions. It is intrinsically ~~connected~~ connected with future expectations, with the present and future state of consumers' demand. For these purposes the system of collectivist planning is not adequate. The central authority can decide upon the production of a million tons of coal or on the production of twenty jet-fighters. Yet it can not decide upon the production of various types of shoes taking into consideration form, quality, color, size, quantity etc. It can not decide on economic grounds which form of investment is to be preferred. Similarly to the war-economy it might be successful in connection with consumption goods if it employs a method of rationing. Summarizing on account of the lack of price mechanism and competition the collectivist economic planning can not ensure the most economical use of the resources. ~~Thus~~

The collectivist economy resembles to the war economy in another peculiar characteristic too: as the economy of shortage. By the concept we mean that the ^{concept} economy of shortage characterizes the collectivist (and war) economy, because the ~~insufficient~~ lack of optimum distribution of resources and the insufficient market-expectations cause a permanent shortage in some important consumption-goods.

In the foregoing we intended simply to point out briefly some important characteristics of collectivist economic planning and thus give some preliminary points of view to the explanation of some deficiencies in the Hungarian economy.

The results of communist planning in Hungary.

To give a preliminary summary of the results of collectivist economic planning and communist economic policy in Hungary we might summarize

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the following:

1. The Hungarian agriculture is declining.
2. The development of the industry shows great differences in the various branches of production.
3. A substantial part of the investments is misdirected and unproductive.
4. The technical level of the industry ^{is} backward.
5. The standard of living has not reached the prewar-level.
6. The costs of armament and bureaucracy require a considerable part of the national income.

The decline of the agriculture has been primarily due to the enforced collectivization-program, the compulsive delivery, the expropriation of the well-to-do peasants, the lack of the free market for the most products, the compulsory production of many products and the lack of initiative in the state farms. The agricultural production is below the prewar-level and ~~Hungary~~ the export of agricultural products declined ^{in a considerable degree} to a very low level.

The development of the industry is very far from being even in its various branches. The program of the development of ^{the} heavy industry - primarily for military purposes - was not compatible with the development of the light industry which would be compatible with the production of foreign countries. The ~~immense~~ increase in the production of the heavy industry was accompanied by greatly increasing costs, while the costs of the light industry increased too because of the lack of improvement in the technical level.

A great part of the investments ^{are} misdirected and unproductive. The investment-decisions were made rather on the basis of political and military, than on the ground of economic considerations.

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The technical level in the Hungarian industry is very low. Because of the lack of competition there was no sufficient inducement to raise the technical level. There was no possibility to employ the inventions of the Western ~~tech~~ countries and from the Soviet-Union Hungary got in a great part obsolete machinery.

The official data give not enough information about the standard of living. According to estimations the standard of living did not increase from the time of the socialization (1949) and did not reach the prewar-level.

The Hungarian communist government do not publish sufficient data about the cost of armament and the expenses due to the immense bureaucracy. The expenses for armament were concealed under different headings. According to estimates the cost of armament and bureaucracy might be about 20-22 per cent.

The causes of the failure in the Hungarian economy.

After giving a short preliminary summary regarding the symptoms of the failure in the Hungarian economy we shall try to give a preliminary summary of the causes of this failure too. In the following chapters we ~~xxx~~ intend to explain the symptoms and the causes too.

The primary causes of the failure in the Hungarian economy were the following:

1. The enforcement of collectivization of the agriculture.
2. The lack of initiative to improve the production process.
3. The deficiencies of collectivist planning.
4. The primary role of political and military considerations in the economic policy.
5. The mistakes in the investment decisions.
6. The exploitation by the Soviet Union.

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For the Hungarian economy the agriculture is of primary importance. The land/man ratio is considerably low in Hungary. The road of development would be intensive cultivation, which can be best accomplished in relatively small units. Instead of that the communist regime - on Soviet model - scheduled a collectivization program with ~~the~~ extensive cultivation.

The lack of initiative is not only the characteristic of the Hungarian communist economy, it is the feature of every form of collectivist planning. The profit motive of capitalism can be not substituted by any other motive.

The deficiencies of collectivist economic planning are caused by the central direction of production, investment and pricing and by the lack of the market and the price mechanism.

The economic policy of Hungary - similarly to the economic policy of the other satellite states was based rather on military and political than on economic considerations. The directives of the plan, the main production and investment decisions were based on these grounds.

The mistakes of the investment decisions ^{have been} ~~were~~ already mentioned among the symptoms of the failure in the Hungarian economy. They are symptoms in the sense that the economic use of the resources is not ensured and causes because the mistakes of the investment decisions had far-reaching consequences for the whole Hungarian economy.

Finally we must mention the exploitation of the Hungarian economy by the Soviet Union. In a separate chapter we shall see the different forms of this exploitation (through reparation-payments, bilateral and multilateral foreign trade, Soviet and mixed enterprises, support of the Soviet army) which also contributed to the failure of the

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Hungarian economy.

III. THE SOCIOLOGICAL BACKGROUND.

The structure of the Hungarian society before 1945.

The Hungarian society prior World War II, might be best described as a developing capitalist society where the feudal elements were still considerable. The means of production ~~xxxx~~ in the industry were in the hands of the capitalists, the great landlords owned about half of the arable land. Half of the population was engaged in agriculture, the industry was greatly developing yet in comparison with the Western capitalist countries Hungary was still underdeveloped. Nevertheless due to the swift development in the interwar period, some branches of the industry became competitive with those of the old capitalist countries and the possibility of further development was conspicuous.

The statistical data ~~gives~~ show us quite well the structure of the Hungarian society. Compiling from the statistical data we get the following figures:

landowners and capitalists	5 per cent
artisans and professionals	10 " "
employees	10 " "
industrial workers	15 " "
independent farmers	20 " "
farm-laborers	30 " "
miscellaneous	10 " "

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The statistical figures show the relation between the industrial and the agricultural population, furthermore the high percentage of the farmhands.

The changes in the social structure after 1945.

The period after 1945 brought fundamental changes in the Hungarian social structure. Some of the former classes were liquidated, at the same time new classes emerged.

The first important change modifying the Hungarian economic and social structure was the land-reform of the year 1945. The landowner-class was expropriated and the land was distributed among the peasants. This changed and modified in a great degree the Hungarian social structure ending the role of the feudal elements and greatly increasing the class of the independent farmers. The number of the landless farm-laborers decreased considerably.

In the years 1948-50 the structure of the Hungarian society was further modified by the socialization of the factories and of the greater part of the commerce enterprises. The socialization deprived not only the capitalists from the means of production, but made impossible the further activity of the independent merchants and artisans.

The third important change in the Hungarian economic and social structure was due to the partial collectivization of the agriculture. At the time of the Revolution already 20 per cent of the land belonged to the collective farms, and 10 per cent of the land belonged to the state farms. The peasants of the collective farms represent a new social class in Hungary. Its problems, its life is quite different from those of the independent farmers.

As a result of these changes the former class of the great landowners and of the capitalists were liquidated, the class of the independent merchants, artisans and professionals was reduced. On the other hand

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due to the industrialization the number of the industrial workers increased~~up~~ and there was a considerable increase in the Number of the employees. In the agriculture population after an initial increase of the independent farmers, the number of the well-to-do farmers decreased and a part of the individual farmers was forced to enter the collective farms.

The class-structure in the time of the Revolution.

The statistical data regarding the present class-structure of the Hungarian population are not complete. Yet on the basis of these figures we might estimate the share of the different social classes in the Hungarian society. The picture of the Hungarian society at the time of the Revolution was the following:

great landowners & capitalists	-	per cent
professionals, artisans and merchants	5	" "
employees	20	" "
industrial workers	20	" "
independent farmers	25	" "
members of collective farms	10	" "
miscellaneous	<u>10</u>	" "
total		100 per cent

The figures show the results of the above-mentioned tendencies: the liquidation of the great landowner and capitalist class, the relative decline of the professionals, artisans and merchants, the tremendous increase in the number of the employees, the increase in the number of the industrial workers and the formerly described tendencies in the distribution of the agricultural population.

percentage
The share of the agricultural population declined from 50 per cent to
percentage
about 45 per cent, whereas the share of the industrial population
correspondingly increased.

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The fate of the former great landowner and capitalist classes.

The former great landowner-class almost wholly disappeared in Hungary. A considerable part of the former landowner-class emigrated from Hungary, others were employed as workers or lived on the earnings of their relatives. Only a few were employed in the agriculture, because they were viewed as unreliable elements from the viewpoint of the communist regime.

The situation of the former industrial capitalist class was not quite similar to that of the landowners. The number of the emigrants was considerable from the ranks of the capitalist class too. Yet the former entrepreneurs were in the most cases good experts and the communist regime needed their knowledge and experience. Thus a great part of the former entrepreneurs became employees of the state. Naturally they did not get leading positions, yet they worked further as engineers or as experts. Nevertheless the communist system viewed them as potential enemies, therefore endeavored to substitute them by more reliable elements.

The professionals, merchants and artisans.

Although the process of socialization was somewhat slower regarding the professionals, merchants and artisans, it was considerable in this respect too.

The communists intended to create collectives for the professionals (e.g. lawyers) or compel them to become state-employees (e.g. physicians). With the dissolution of the religious and of the private schools the teachers became state-employees too.

The number of the independent artisans was reduced partly as a result of the non-issuance of licenses, partly in account of the tax-policy

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and of the method of material-distribution. In consequence of the different forms of compulsion only a relatively small part of the independent artisans retained its old activity, the greatest part of them went to the factories or established cooperatives.

The commerce was ~~now~~ in 90 per cent socialized. The socialisation was complete in the wholesale-trade. In the great towns only a few independent shopkeepers remained, their number was greater in the villages.

The class of the employees.

In the last 12 years there was a significant change regarding the number of the employees. During the planning period the number of the employees doubled. The principal cause of this change was the immense increase of the bureaucracy. This overdimensioned bureaucracy - which is a natural consequence of collectivist planning - plays an important role in the Hungarian society. This class is extremely heterogeneous, its members were recruited from all the classes of the Hungarian people. A characteristic part of this class is the army of the party-~~men~~ functionnaires, its members are working in the party-bureaucracy, in the different side-organisations of the party and in the various posts of the ministries and state-enterprises. The "red-book" (the symbol of the party membership) ensures them a good standard of living and makes them the faithful supporters of the communist system. Sociologically the officers of the army and of the police belong also to this group. Its members were recruited from the communist-minded workers, peasants and intellectuals. The Hungarian Revolution proved that the supporters of the communist regime are to be found in this group of employees because they might thank their advantageous position to the communist regime and they can only lose in the event of democ-

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tization. This group serves every form of the communist system, because its prime interest consists in the maintenance of communism.

The industrial workers.

One can not say that the industrial worker-class would be homogeneous in Hungary. A considerable part of the communist workers became as party members the employees of the state and of the different organizations. They belong to the group of the faithful supporters of communism formerly mentioned. At the same time the worker-class was inflated by a number of formerly independent peasants, artisans and merchants. Besides the majority of the industrial workers were formerly the supporters of the socialdemocratie. Thus the worker-class losing its communist-minded part, swollen by a group of considerable magnitude which was forced to leave its former profession and therefore was hostile to communism, became a class taking a passive or even hostile attitude towards ~~communism~~ the communist regime. This hostility was strengthened by the failure of the communist system to increase the standard of living and by the increasing ^{the} intensity of labor. Thus at the time of the Revolution the worker-class fought against the communist regime, even after the Revolution was crushed by the Soviet army: by its last weapon: the general strike.

The agricultural population in Hungary.

In the chapter dealing with the problems of agriculture we shall examine in detail the situation of the agricultural population. Here it is sufficient to mention that the psychical homogeneity of the Hungarian peasantry was greatly maintained. The Hungarian peasantry remained the enemy of the limitation of personal freedom in every form, whether in the form of collectivization, the central direction of production, the determination of prices or the compulsive delivery.

III. THE PSYCHOLOGICAL FACTORS.

The psychological factors in a capitalist economy.

In the last decades the role of the psychological factors in the capitalist economy has been generally recognized. In the economic theories - implicitly or explicitly - the psychological factors assumed considerable importance.

In the last century the classical school did not attribute much importance to the psychological factors. This school of thought viewed the behavior of man in the economic sphere as entirely rational. The role of the non-economic motives was not recognized. At the beginning of this century the institutionalist school pointed out that the supposition of completely rational behavior ^{was} false. Everyone is influenced by non-economic factors as prestige, social position etc. and trying to explain human behavior in the economic and social life one has to take into consideration the present institutional structure of the society. Furthermore the role of the psychological motives became recognized in the economic behavior of mankind. We might mention for instance the Keynesian theory where the psychological factors influencing the marginal efficiency of capital and the rate of interest are greatly res-

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possible for the changes in the economic activity.

The psychology of collectivism.

The Marxist theory but also a considerable part of the non-Marxist socialist do not acknowledge the role of the psychological factors in the collectivist system. Some of these theorists are asserting that after the abolition of the capitalist system the rational behavior of the rational man will be dominant and the self-interest of mankind will be substituted by the interest of the society as the fundamental motive of human activity. This view is highly responsible for the mistakes and fallacious expectations of the supporters of collectivism. Although not formulated in its crude form mentioned above it is really the underlying assumption of the theories favoring collectivism.

The theory about the role of the psychological elements in collectivism could not be developed in the existing communist systems, because it is in contradiction with the "official" theory. On the other hand the Western science lacking the personal experience of the collectivist states could not give a complete elaboration of this theory.

In the following we shall try to deal with some of the most important aspects of the role of psychological motives in the collectivist system in connection with our central problem: the failure of collectivist economic planning in Hungary. Therefore we shall emphasize the psychological factors dominant in the present-day communist systems.

The problem of the youth.

It might seem peculiar to deal here with the problem of the youth. Yet to understand the problems of the contemporary communist states, the "trend" of the attitude of the people towards the communist regime

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it is of considerable importance to examine this question. In the last years it has been frequently discussed in the West what influence had the communist educational system on the youth. One was afraid that the young generation which had not known the freedom and lived in its most perceptible years in a communist country, might be influenced by the communist doctrine in such a degree that it might become the faithful supporter of the communist regime. The events in Hungary and in Poland proved the contrary. The Hungarian youth had a leading role in the Revolution and the situation was similar in Poland too. There are reports concerning the resistance of the youth against communism even in Russia and Red-China too.

The facts have proved that the fear of the free world was unfounded. Yet the question arises: how is it possible that after a decade of communist education in spite of the endeavor of the communist rulers to make the youth the blind supporter of communism, the youth became the most dangerous enemy of the communist system?

To answer this question we have to deal with some factors significant in this connection: the role of the family, the contradiction between propaganda and reality, the connection between education and enlightenment and the youth as a "par excellence" revolutionary force.

The communist regime strived for the elimination of the impact of family education. Yet these attempts of the communist regime generally failed. Regarding politics the youth usually gave more credit to the paternal house than to the school or to the youngsters' organizations. A minority of the youth believed in the communist doctrines but the majority was greatly influenced by the parents. This problem is connected with the second question: the contradiction between propaganda and reality. It has been impossible to veil the eyes of the youth not to see the contrast:

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see the contrast between propaganda and real life. The young generation learned that the standard of living in the communist countries was steadily increasing and the standard of living - according to the accepted doctrine of Marx - was in the capitalist countries steadily decreasing. At the same time he saw with his own eyes that the standard of living was unchanged or even deteriorating in his own country and in spite of the difficulties to get news from the West his sporadic informations also proved him the increase in the standard of living of the capitalist countries.

He learned the Soviet culture to be the most advanced in the world, and at the same time he made comparisons between a Thomas Mann and a Fajzjev, a Hemingway and a Solochov. And now we are at our third point: for the communist system it is inevitable to give the youth a technical and - in a less degree - a cultural education. For example the cultural niveau of the Soviet population actually increased in comparison with the old Tzarist regime. The direction of the highly complicated planning system requires educated men. Yet with the education of the youth increases its educational intellectual horizons and hence its endeavor towards freedom. It is an internal contradiction of the communist system that it has to educate more and more people, thereby increasing the danger of the educated youth as a potential enemy of the totalitarian system.

Our fourth point is the youth as a "par excellence" revolutionary force. The history seems to prove that the young people fought always in the first ranks of the revolutionaries. The ideals of the youth has not yet faded away, they have the necessary freshness to fight and have not much to lose. The above-mentioned features of the young generation are of outstanding importance for the present and the future of the communist system,

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and might lead to its eventual transformation.

The effects of propaganda.

Different authors held different views about the effects of propaganda. Some people asserted that with propaganda everything might be made believed, others held the view that propaganda might have only a temporary effect. In our opinion it is much truth in the statement of Abraham Lincoln: "You might fool ^{many} people for a short time or some people for a long time, but can not fool many people for a long time." The events of the last years in the communist countries prove rather the truth of this statement than the assertion of Aldous Huxley "Seventytwo thousand repetitions make a truth."

Our next question is ^{why} ~~how~~ was ~~possible that this~~ huge propaganda-machine of the communist states ~~is~~ not sufficient to make ^{people believe} ~~believed~~ the permanently broadcasted propaganda-material? Why has propaganda sometimes opposite consequences? In this connection we intend to refer to two circumstances: the self-deceiving nature of the propaganda and the contradiction between propaganda and reality.

The rulers of the totalitarian states are deceiving themselves by their propaganda-machine. As an effect of the immense propaganda and if the punishment of the opinion not conform to the official statements they do not know the real opinion of the people. There is no possibility to ask the opinion of the people about the work of the ministries, or about the budget. If they want to get informed through the secret police - the Gallup-Institute of the East - they re-hear their own propaganda - because everyone is afraid of the punishment and pays attention what to say. Yet the coercive nature of the regime strengthens the hostility against the propaganda and against the entire regime. If people must believe something they will not believe it.

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Furthermore the propaganda of the communist state is more or less far from the truth. The communist rulers want to popularize their regime asserting the alleged advantages of the communist system. Yet ~~stating~~^{attest} the contradiction between the reality and some parts of the propaganda the people is induced to reject the propaganda as a whole. Thus also those parts of the propaganda are rejected which conform to the reality.

The selfish motives in a collectivist state.

In the last pages we have seen some psychological factors in connection with the communist system. Now we shall investigate some factors having validity in every form of collectivism. We have already stated that in our opinion the theories favoring the different forms of collectivism implicitly or explicitly assume a change in the human nature in the collectivist system. Yet not only the experience of the communist states but also the logical reasoning seems to disprove this assumption and with this the belief in the superiority of collectivism vs. capitalism.

Here we shall deal with the role of selfishness in capitalism and collectivism and with the attitude towards the state in a collectivist system.

The classical theory of economics in its original form taught that individual selfishness be in complete agreement with the interest of the community. According to this theory free competition ensures that the profit-motive unconditionally ^{results in} ensures the decrease of the costs and prices, the optimal distribution of the resources and the maximum welfare of the community. Although this theory is exaggerating and the different forms of "outthroat" competition might ~~be~~

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have disadvantageous consequences and speculation might ruin values for the community, with the cooperation of the state ensuring the individual initiative in the capitalist system through competition and free market greatly contributes to the development of the economy and to the welfare of the community.

In a collectivist state the possibilities of the individuals are greatly limited. The selfish motives, the individual initiative have no outlets. The main goal of the individual is still its maximal welfare and he tries to find methods to ensure it. Because of the limited legal possibilities he is induced to use "semi-legal" or even illegal methods. The collectivist state has to impose the greatest controlling organization hitherto fancied, yet the rigidity of the system, the immense magnitude of the controlling task and the indifference of the controlling organs ^{render} impossible the efficiency of the control.

The relation between the state and the individual might best be viewed in the contemporary communist states. The communist propaganda is asserting that the interest of the individual and that of the state be common. Yet the individual does not feel that his personal welfare would be connected with that of the state. For him only one thing is certain: the amount which he individually gets increases his own personal welfare, although it might eventually decrease the welfare of the state. He is willing to sacrifice it lose less of the state if he might then a small part of it. In a capitalist enterprise he feels that the prosperity of the enterprise is connected with his own prosperity. Besides he is conscious of a more effective control. It would be impossible in capitalist enterprises that a part of the merchandise-stock would be missing without making someone responsible for it. In the communist systems millions have been lost without calling into account anyone. Not only ~~the selfish motives~~ cause the selfish motives a rift

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between the individual interest and the interest of the state, yet also the moral seems to be declining in the communist states. The negative attitude of the individuals might be traced out in the bad treatment of the materials and machines too.

It is not at all probable that the motives of selfishness might change in other forms of the collectivist system.

The lack of initiative in a collectivist economy.

In connection with our general considerations concerning collectivist economic planning, we have already touched upon the consequences of the lack of initiative in a collectivist economy. In the following we shall try to point out some significant aspects of this problem: The consequences of the lack of initiative in the decrease of costs, in the improvement of the quality of the products, in the use of the modern technique and in the establishment of new enterprises.

In the capitalist system every entrepreneur has to reduce his costs if he wants to maintain his competitive position on the market and to increase eventually his profits. Yet finally the decrease of the costs leads to the decrease of the prices too. In the collectivist system there is no considerable inducement to reduce the costs. The directors are essentially ~~the~~ administrators who are carrying out the orders of the planning authorities. There is neither competition nor any other force that would compel them to reduce the costs.

The improvement of the quality of the products is required in the capitalist system by the fact of the consumers' sovereignty. If the quality of the products of one factory is deficient the demand will shift to the products of the other factories. On the other hand the entrepreneur is interested in the improvement of the quality of the products because this represents a possibility to increase the demand

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for his products. In a collectivist economy the consumer can generally not choose between different kinds of the same product because the specialization of the enterprises has the effect that one product is generally produced by only one factory. For the state enterprise it is advantageous to produce deficient products, because the production costs of these products ^{are} ~~is~~ less and it is easier to produce them. The experience of the communist states show that the consumer can state his preferences in the form of letters and applications, yet due to the existing shortage of supply he has not more alternatives he has to buy the deficient products too. On the other hand the endeavor for higher quantitative production-results lead also to the deterioration of the quality.

The application of modern technique is inevitable in capitalism. The competition compels the entrepreneur to seek for more advanced technique. In a collectivist economy no such compelling force exists. Modern technique is being applied if the state decides to use it. Yet the planning authorities can be not concerned with the modernization problems of every enterprise. There is no automatic checking mechanism, therefore the enterprise can exist and work further on with obsolete technique and obsolete machines and the ^{backwardness} ~~underdevelopment~~ of the technique will be recognized only if the products of the collectivist enterprises would compete with the capitalist products of the capitalist enterprises on the world market.

The establishment of new enterprises in a collectivist economy is the task of the planning authorities. Yet there is no sufficient method that would ensure the establishment of the new enterprises ^{resulting in} ~~ensuring~~ the optimal distribution of the resources. Furthermore the new enterprises do not signify the danger of competition for the old ones thereby inducing the improvement of the production-methods.

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"The proprietors of the factory."

does

"The factory ~~belongs~~ not ~~xxxxxx~~ belong any more to the capitalists, it belongs to you, fellow-workers" - this was a frequently used slogan of the communist propaganda. But the workers are materialists in the sense that they prefer to get more wages to any "proprietaryship" which falls short in the most important respects: it brings no pecuniary gain and it is not saleable. ~~xxxxxx~~ The logic of the workers was very simple: ~~the factories were socialized~~ the factories were socialized some years ago (in Hungary in the years 1943-50). The question is: did the standard of living rise in this period? The answer seems to be negative in almost every satellite state. At the same time - in spite of communist propaganda - they became acquainted with the fact that living standards were ~~xxxxxx~~ there living there much better, although they did not become the proprietors of the factory (The comparison is very interesting between West and East Germany). The workers in the communist states do feel that they are not the proprietors of the factory. Then whom belongs the factory? Who is the real owner? The people ^{think} that there must be someone or some group who is the real owner. And the line of thought goes further: the owners of the factory, the owners of the means of production in a communist state are those who are living in the best circumstances. The people sees these in the highest party functionaries, in the persons having the most important positions in the state- and party apparatus. From the psychological viewpoint it does not matter whether it is really so or not: the significant thing is, that the workers in the communist state feels that he is working for someone else. He does not feel any common interest with the unknown proprietor and does not feel that damaging the accessories of the factory he would damage also the

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property of the community to which he belongs. This psychological fact causes that the reverse of the Marxian thesis about the attitude of the workers to the capitalist and to the state-enterprise is true. They seem to be much less interested in the loss of a state enterprise in a communist state as of a capitalist enterprise.

Profit and loss in the collectivist economy.

During the life of Stalin one might frequently hear the following statement: "The punishment of bankruptcy is in capitalism the loss of ~~the~~ property, in communism the loss of life." In fact this assertion is very far from the reality. In capitalism bankruptcy is really "punished" by the loss of property, but in communism there is really not any punishment. The special characteristic of the collectivist economies is that there is no sufficient inducement to improve the work of the factory. The premium-system would have the task to serve as positive inducement, but - as we have seen ^{with} later - the manipulation with the prices, production-results, balance-sheets etc. makes it possible to achieve premium without any real improvement in the work of the factory. On the other hand there is not any negative inducement for not to incur losses. The managers of the factories do not lose anything if the factory operates with a loss. They might even argue that the price-determination was ^{mistaken} deficient, because it did not take ^{be} into consideration their costs. They might ~~have~~ be right because in the communist economies the prices are based on historical average costs. Thus there is no measuring rod to determine to "good" or "bad" work of the factory, of the management. The Hungarian case shows that the "prosperity" of a factory is based ^{primarily} simply on the good calculation-work. Yet from the viewpoint of the whole economy it means that profit and loss give no positive or negative inducement to better ^{the work of the factories, the situation of the economy.}

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The consequences of compulsion.

Finally we have to consider another important psychological factor: the psychological consequences of compulsion. If one acts freely, he feels to be acting in the best possible way. Yet if he is forced to do or not to do something, he feels himself worse off, although it might be only an illusion in physical terms. There is a psychological effect e.g. in every "point"-system. If somebody is forced to buy a certain quantity of the different commodities and can not buy more, he feels that his standard of living is deteriorated although he might buy the same quantities on a free market. The situation is similar in the case of compulsory delivery. The brutto earnings of the farmer might remain the same, because the rise in the free market price might equalize the loss incurred on the lower price paid by the state. Yet he still feels to be deceived by the state, because it proposes the price of the free market to be the "true" price.

The limits imposed by the state on the economic activity in a collectivist state give the same feeling of deterioration ^{in the standard} of ~~living, the people~~ ^{the people} held etc. The collectivist state exerts compulsion in the whole area of economic life, thereby creating adverse psychological consequences for the individual.

In the communist states the political attitude of the people ~~enver-~~ ^{ens} the economic efficiency too. The disinteressement or even hostility towards the communist state leads ^{by} ~~neutral~~ or even negative feelings towards the betterment of the economy.

IV. THE ECONOMIC POLICY IN THE LAST 22 YEARS IN HUNGARY.

The reconstruction-period. (1945-47)

The period of the years 1945-47 showed the immense ~~immense~~ forces inherent in the Hungarian economy. During World War II, primarily in the last years of the war, the Hungarian economy suffered great damages. The productive capacity was reduced by about 40-45 per cent, the situation was ~~similar in the different parts~~ ^{depressing in every} of the economy. Agriculture, industry, transportation and buildings equally incurred serious losses. In a rather short time the reconstruction-work was begun and in spite of the plundering of the Soviet army and the high amount of reparations payments, the production increased considerably. The improvement of the economic situation was greater than in many other countries of Europe.

The economic policy of this period was highly flexible. The capitalists could reconstruct their factories, the investment and the production decisions were made free of any state intervention. There was rationing in some consumers' goods for a time, but rationing went never so further as e.g. in England or in Germany. The state had a certain controlling role, but it was not greater as in the Western European states of

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In this period Hungary displayed ~~amongst~~ one of the greatest inflations of the ^{world}, but this inflation had favorable results for the development of the economy. The inflation induced the entrepreneurs to invest in ~~fixtuxpizixt~~ productive equipment. The investments were enhanced by the relatively cheap price of labor due to the "forced saving"-effects of the inflation. The one and half years of inflation greatly increased the nation's productive capacity, a considerable part of the damages caused by the war were restored.

The currency reform of the year 1946 was made very skilfully. The ~~fixtuxpizixt~~ reconstruction work was continued. The purchasing power of the new currency: the forint, did not change in the first time.

In this period the Hungarian economy was still of capitalist nature. Only at the end of the period came the first step towards collectivism: the socialization of the mines and the metallurgy.

The three years plan (1947-49)

This period was characterized by the continued reconstruction program and by the policy of socialization. The reconstruction work was carried out further on and the national income increased considerably.

The most important act of socialization occurred in the year 1948. In April 1948 the industrial enterprises employing more than 100 workers were socialized. But the total planning system was not yet built up. The independence of the new enterprises was maintained after the socialization too. In this time these enterprises had similar character to the state enterprises of the capitalist system. The market relations remained in a great degree undisturbed. The planning system was still undeveloped. The planning contained only general directives, the production decisions were still made by the enterprises. The special characteristics of collectivist economic planning were still lacking. The

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immense bureaucracy of collectivist planning was not developed. In this period the national income and the standard of living increased further on. The price level was generally stable, although there was ~~was~~ already a slight increase in the prices of some consumers' goods. During the period of the three year's plan the question of power was decided, the communist party took over the command in the country and for the future there was no other alternative than a collectivist economy after Soviet model.

The first years of the five year's plan (1950-52)

In the three year's plan-period with the increase of production the standard of living increased too, yet did not reach the prewar level. The goals of the five year's plan were more far-reaching. The plan aimed to surpass the pre-war level in production and standard of living, to build up the heavy industry, to equip the army, to reduce the foreign trade with the capitalist countries, ~~and~~ to strengthen the economic relations with the Soviet-Union and to socialize completely the entire industry with ~~the~~ partial socialization in the agriculture. For the achievement of these goals a planning system was established after the model of the Soviet planning system.

The results of the first three years were far from satisfactory. The deficiencies of collectivist economic planning and the blunders of communist economic policy had many unfavorable ~~results~~ effects. The production increased - although not in the same degree as planned. A considerable part of the national income was employed for - in many cases inproductive - investments and for rearmament purposes. The bureaucracy was immensely enlarged. Decreasing the trade with the Western countries and increasing the economic relations with the Soviet

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Union the cost of the Hungarian import rised considerably. The shortcomings of collectivist economic planning and the ^{of communist} deficient economic policy caused many shortages and bottlenecks in the ^{whole} ~~entire~~ economy. The enforced collectivization policy in the agricultur resulted in a declining productivity. The standard of living did not increase, in the year 1952 there was even a decrease in the standard of living. Something had to be changed, it became conspicuous that the economic policy of the Rakosi-regime was a failure. Then came the first Nagy-regime.

The economic policy of the first Nagy-regime (1953-54).

The failure of the forced industrialization policy in the first years of the five year's plan brought some changes in the political and economic life of Hungary. New government was formed, although its communist character was maintained. Yet the new premier, Imre Nagy was not of the old, "stalinist" type, he was rather a so-called "national communist" in the sense that he wanted to free himself from the servile imitation of the Soviet-Union, intended to end the uneconomic ~~stagnant~~ investments in the heavy industry and to lead the Hungarian economy taking into consideration the special characteristics of Hungary. The emergence of the Nagy-regime coincided with a liberalist regime in the Soviet-Union: the Malenkov regime. There was a certain similarity in the economic goals of the two regime regarding the development of agriculture and the cut down of the investments for the purposes of the heavy industry.

The unfavorable consequences of the first three years in this planning period induced Nagy to modify considerably the goals of the five year's plan. He cut down investments by about 50 per cent for the remaining period and similarly cut down the goals of the increase in

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national income, which were impossible to fulfil. Cutting down the investments for the purpose of the heavy industry he intended to shift a part of the investments to the agriculture, gave more freedom for the independent artisans and merchants, even helped them to set up new businesses.

The reforms were not carried out consequently. The stalinist line of the party-bureaucracy impeded ~~any~~ any change. The attack on the new economic policy was ~~again~~ already begun in the first weeks of the Nagy government. In 1954 the entire policy of the Nagy-regime was suspended and the preceding economic policy was resumed.

Assessing the economic policy of the Nagy government we have ~~not~~ to state ^{some} ~~some~~ favorable and unfavorable results too. First of all the fact that the system of collectivist economic planning remained unchanged impeded the achievements of a ^{significant} ~~great~~ improvement. Furthermore the new economic policy was not carried out consequently. Primarily the bureaucratic planning apparatus is responsible for that. Nagy decided to shift the bulk of the investments from the heavy industry to the agriculture and the planning organs carried out his intentions without taking into account the economic viewpoints regarding this shift. Some of the investments were shut down without considering ^{whether} the outlays hitherto made would not induce to finish the investment. The construction of many buildings was stopped in the moment when one had no more task than to place the roof. On the other hand new investments were begun in the agriculture without satisfactory preparation. The construction of the farm-buildings was started before the roads to the farms was built. The lack of systematic policy caused many losses in the ~~manufacture~~ ~~many~~ investments projects previously begun and increased considerably the costs of the new agricultural investments. The rigidity of the planning system caused that the targets of the new economic policy were

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carried out ^{by mechanically} (cutting the Ft. amounts available for the investments in the heavy industry and deciding ^{to} the increase ~~of~~ the Ft. amount of investments in the agriculture. The main lines of the policy were based on economic consideration, but in its performance ~~final~~ ^{economic} criteria were decisive, not the ~~main~~ effect of the decisions. Furthermore there was no considerable improvement in the light-industry. In spite of this mistakes of comparing the new economic policy with the policy of the Rakosi government, it ~~might~~ was healthier from the viewpoint of the national economy, it aimed at last to take into consideration the real necessities and possibilities of the Hungarian economy. The failure of the Nagy-regime was not economic, rather political. The Stalinist forces proved to be stronger. Besides the fall of Malenkov helped the old line of policy too. In 1945 the economic policy of the Rakosi regime was resumed anew.

The new industrialization-period. (1954-56)

The policy of the new Rakosi regime followed strictly the Soviet-line. the development of the heavy industry and the rearmament was resumed, the economic policy of the Nagy regime was termed as ^{harmful} ~~damaging~~ for the "road to socialism" by relaxing the efforts in the collectivization of the agriculture, helping the independent artisans and merchants and neglecting the development of the heavy industry.

During the new industrialization-period the goals of the economic policy of Imre Nagy were dropped, and the targets of the economic policy were stated in the development of the heavy industry, armament, increase in the investment activity and socialization of the agriculture. These goals were really the same as those of the years 1950-52. Considering the shift from one economic policy to the other, we have to stress the rigidity of planning which had considerable importance

The slowness in the process of carrying out the new economic policy decisions might be illustrated by some examples. The pledge for the new economic policy was pronounced in the middle of the year 1953. Yet the change in the investment policy took place only after a year, but then abruptly. The effects of the new industrialization policy - decided in the middle of the year 1954 - were felt only in the middle of the next year.

Resuming the economic policy of the years 1950-52 the Hungarian communist government faced the same difficulties, ~~again~~ before. The shortages and the bottlenecks were similar in 1956 as in 1952, the development of the industry was not balanced, the unproductive investments failed of the heavy industry ~~xxxxxxxxxxxx~~ to increase the productivity, the enforced collectivization policy deteriorated the situation in the agriculture, the standard of living did not increase. The failure of the communist economic policy became evident.

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to the surface. A change in the economic policy was inevitable. There were already timid attempts from the side of the government to change the economic policy. For the Hungarian people the question was to permit a modification in the economic policy without altering the system itself: i.e., to give a new "try" to the communist regime or to change the system itself. The Hungarian people decided to overthrow the entire communist system. The new economic policy would signify a "third way" between capitalism and socialism. Yet the Soviet army impeded to see the results of such an experiment.

V. THE PLANNING METHODS IN HUNGARY.

The imitation of the Soviet methods.

If we aim at the description of the Hungarian planning system we have to emphasize its resemblance to Soviet planning. As a matter of fact the Hungarian planning system is a close imitation of the Soviet system. If we intend to ~~search~~ seek for the cause of this phenomenon, our answer is very ^{easy} ~~easy~~.

The first cause of the imitation of Soviet planning methods was the ~~servile~~ ^{imitation} ~~copying~~ ^{any} of ~~everything~~ that came from the Soviet-Union. Everything was to be copied in the field of politics, economics, culture and literature. Therefore it was quite natural that the methods of collectivist planning were copied. The Soviet Union was the first country where the collectivist economic system was employed. Besides Russia supplied the satellite states - and thus also Hungary - with a great number of economic advisers. The Soviet advisers were present not only in the most important factories, but in the Planning Board too. It is quite understandable that the "infallible" Soviet experts directed the elaboration of the methods of planning after Soviet model.

Although the different circumstances and natural resources ~~we~~ would

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require the employment of different methods in Hungary, it was very difficult to modify the Soviet methods, because one could be easily condemned as "revisionist", one of the greatest crimes in a communist country. And if someone would try to use methods developed by the Western economies, he was found guilty as influenced by the "servants" of the capitalist class.

The quality of leadership in planning.

A leading economist wrote somewhere that the capitalist system requires clever man, but a total planning system requires genius. It is true that even ~~the~~ a Morgan or a Rockefeller had only a relatively small scope of activity compared with the planners of a whole economy. According to others the problems of collectivist economic planning might be solved by simultaneous equations (by an input-output scheme ^{containing} ~~comprising~~ the whole activity of the economy) but in fact the thousands and thousands of equations have only an auxiliary role, the fundamental questions are to be decided - after an intelligent measurement and consideration of the facts and the possibilities - by the planning authorities. The solution of the problems of planning requires men, who - if they can not even be "genies" - need to have a ^{considerable} ~~great~~ knowledge of economics, economic policy, financial problems and of the special problems and characteristics of the different branches in the national economy. Here we see an internal contradiction of the communist economies. A good economist must be acquainted not only with the works of Marx and Lenin and with the economic policy of the Soviet Union, but also with the achievements of the Western economies and with the economic policy of the Western countries. (In the proper sense we can not speak about economics as a science in the Soviet Union and the satellite countries where the scope of economics consists mainly of the re-

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petition and the reiteration of the "everlasting truths" of Marxism-Leninism). But if someone speaks Western languages and is acquainted with Western economics and economic policy, ^{and} ~~even if~~ he tries to assess it objectively, he is not reliable for the communist system. The statement of Berija was employed ^{by} after his slaying too: "We must destroy the potential enemy too." Consequently the communist state is reluctant to employ those people who would have the ability to solve economic problems. It prefers to employ reliable party-members who have sometimes no idea about intelligent planning. The fight against the potential enemy produced a new class, consisting of semi-intellectuals who ^{had} learned their Marxism-Leninism and followed closely the political line with its rapid turns without considering the economic consequences of their actions. And if a reliable communist tried to employ "bourgeois" experts, he was no reliable any more - as in the case of Zoltan Vas, the first president of the Hungarian Board of Planning - and not only the employed experts but also ~~has~~ had to leave his position.

There is a characteristic short-sightedness in the communists electing the leading employees in any general field (e.g. the Planning Board or the ministries) in a quite different manner as in the field of production. If an engineer constructs a bridge which tumbles down in a year or a machine which does not operate, everyone might see that he is not able to work in his position and gets the sack. The role of the planning authorities and the role of the leading representatives of the ministries is much more important for the economy than that of an engineer in a factory. This is self-evident because the planning authorities are making the ~~Marxist~~ fundamental decisions about investment and production and the ministries are directing the ~~carry-~~ ^{execution} ~~ing-out~~ of these decisions. Yet the consequences of their actions are not immediately conspicuous and there are also different circumstances

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influencing the outcome. The connection between cause and effect is not so self-evident as in the field of production. That is why a decision about an investment in the value of Ft 1 billion might be wrong even if the construction-work of a building being the part of the whole investment-project was carried out perfectly. Besides the political leaders prefer their reliable political aids to ^{be elected} elect for the most important positions in the direction of the economy. The lack of the possibility to check the ability of these men in the direct outcome of their work results in great losses for the economy.

We had to stress this question because of its considerable importance. The last ten years in the Hungarian economy give many examples about the inability of its leaders elected on the basis of political considerations and this fact contributed ^{also} to the failure of the communist economic system in Hungary.

the "quantity of the writing desks" in the communist planned economic system.

If someone would ask the question in what field of production were the communist planned economies the most successful, the answer would be very simple: in the production of the writing desks. The endeavor to establish a total planning system, the inability of the planning authorities, the self-productive and the self-preserving power of the "writing desks" caused ^{incalculable} unbelievable results. The number of the writing-desks had been doubled, tripled and quadrupled. Sometimes a new man tried to reduce the bureaucracy but in vain. That was the intention of the Nagy-regime, but the results were only temporary. The number of the writing desks decreased for a time, but later increased anew. The self-preserving power of the writing desks manifests itself in the fact that if they have nothing to do, they look out for work for them-

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selves, to prove their usefulness.

If we are looking for the causes of the immense increase in bureaucracy we have to consider three causes: the requirements of total planning, the need for control and the need for the employment of the reliable party-members.

The total planning system requires a vast apparatus. For the planning in details many people are needed and the endeavor to increase the accuracy of planning requires the ^{growth} increase of the apparatus too. Yet the ^{growth} increase of the apparatus increases its inflexibility, a special characteristic of collectivist planning that has been already mentioned. The vast system of planning, the central direction of the economy requires a huge controlling apparatus too. As Professor Mises pointed out: "The management of a socialist concern cannot entirely be placed in the hands of a single individual, because there must be always the suspicion that he will permit errors inflicting heavy damages to the community." (Ludwig von Mises: Economic Calculation in a Socialist Commonwealth. Collectivist etc. p. 121.) It is inevitable to control the single enterprises, the trusts and the other intermediary organs in the direction of production, the ministries and also the Planning Board. The psychological factors previously mentioned increase the need for control. Thus the bureaucracy of the collectivist state ^{is} has to be supplemented by the controlling apparatus.

The formerly mentioned causes are valid in every form of collectivist economic systems. There is a third point which is characteristic for the communist economy. The economy has to employ a great number of reliable party-members, who cannot be used very much but are to be employed to improve "the social composition of the employees". The practice has shown that (besides of the personal departments) they were mainly employed in the planning and the statistical departments. In the direc-

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tors' opinion! they can do not much wrong there." This does not need much commentary.

To illustrate the bureaucratization of the Hungarian economy we might see ~~to~~ examples. Before World War II, there was no separate Ministry for Construction in Hungary. In the Ministry for Industry, Commerce and Transportation approximately 10-15 men were occupied with the problems of the construction industry. In the Ministry for Construction of the communist regime the number of employees ^{was} ~~is~~ about 1200. And we have also to take into account the considerable increase in the number of employees of the building trusts and enterprises.

The situation is similar in the factories too. In the different factories the percentage of the administrative employees rose from the interwar 2-4 per cent figure to 8-10 per cent. There were factories where the percentage of the administrative employees even reached 15-20 per cent.

What is the economic consequence of the immense increase in the number of white-collar workers? The percentage of the productive workers (using the concept of productivity in the widest sense including the employees directing the productive-process) decreased and a greater part of the value produced by them was to be used for the maintenance of the unproductive workers. And thousands of bureaucrats ~~unproductive~~ are consuming more than ^{one} capitalist (and are making more mistakes too). To use a numerical example: If we imagine an economy ~~where~~ with unchanged productivity where the number of the employed persons remains the same, but the percentage of the productive workers decreases from 30 to 70 per cent, the national income and in consequence the standard of living of the whole population declines by 12 per cent.

This numerical example shows the results of bureaucracy ~~in Hungary~~ which are characteristic not only in Hungary but also in any other

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form of collectivist economy.

The authority of the Planning Board in Hungary.

In a planned economy, where the close cooperation of the different branches of the economy is indispensable, the most important decisions are to be made by the Planning Board, because only the Planning Board can see the consequences of the fundamental investment and production decisions for the whole national economy. Therefore the Planning Board has to be the central authority to direct the work of the ministries. In Hungary the situation differed considerably. The ministries were highly autonomous in the sense that they could pursue their own interests and the harmonizing role of the Planning Board was ^{often lacking} ~~not ensured~~. The ability and capability of men and their political influence is a decisive factor in the life of the institutions too. The authority of the Planning Board in Hungary depended in a great degree on the personal capacity and the political influence of its presidents. In the first years after the beginning of the socialization the Planning Board had a directive role in Hungary. That was so till 1949, until Zolta Vas was its president. After that time the Planning Board could not maintain its former role, it was theoretically the highest authority of the economy but in fact its decisions were not always accepted. Many important questions were decided in the favor of the "stronger" ministries. It seems to be strange to speak about "strong" and "weak" ministries, about the different ^{interests} ~~industries~~ of the ministries, but we might illustrate our assertion by some examples.

There was a permanent quarrell ~~between~~ among the ministries. Every minister wished to increase his power, to increase the economic activity of his ministry, ^{even} ~~although~~ if it was economically not desirable from the viewpoint of the community. E.g. there was a dispute lasting for years

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whether only the Ministry for Construction should have building enterprises or other ministries should have too. The Minister of Construction asserted that the Hungarian building trade is to be directed as a whole by the Ministry of Construction, while other ministries argued that they need "own" building enterprises to construct for their own ministry. The Planning Board could not settle the quarrel. When at last the Council of the Ministers decided the question leaving construction enterprises only ^{to} for the Ministry for Construction and (for road and railroad construction) ^{to} for the Ministry for Transportation, the other ministries did not give up their "own" construction enterprises for months and finally established new enterprises for construction-work under false names (e.g. enterprise for building-repair), which that continued the construction work.

Another example: the Ministry for Heavy Industry had the purpose that the roll-works at Stalinvaros should be finished in 1959. The Ministry for Construction denied the possibility of such an early date and verified its assertion with the projects and designs of the construction-work. In spite of the objective impossibility factors proving the assertion of the Ministry for Construction, the question was decided in favor of the Ministry for Heavy Industry on the basis that ~~the~~ "requirements of the heavy industry are to be satisfied".

The weakness of the Planning Board manifested itself in ~~the~~ connection with the investment-decisions and the distribution of the materials of fundamental importance too and caused many damages for the Hungarian economy, because impeded the rational distribution and use of the resources.

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National accounting in Hungary.

In the Western countries national accounting is an important part of economics. Many economists are occupied with the problems of national accounting, ^{to} develop these accounts and to find the best possible methods. One might imagine that in a collectivist planned economy where the national accounts should to be the basis of planning that would be much more so. And what is the reality? The national accounts, even the methods of ^{preparing} the national accounts are secrets. The "unreliable" economists have had not the right to know their contents. It is no wonder that under such circumstances the national accounting system could not develop in Hungary. There was no possibility to employ the Western methods. Some basic accounts have been constructed but the scientific basis was lacking. The achievements of the West in the construction of the national accounts or input-output systems were not employed. The mathematical methods in the determination of the interconnection of factors and in the measurement of the productivity of investments etc. were largely unknown.

Furthermore even the national accounts constructed by the Planning Board were neglected in the making ^{of} fundamental decisions. Those ^{the} were based rather on political and ^{military} ~~economic~~ considerations, than on economic bases. The deficiency of the Hungarian national accounting system and the frequent negligence in its application were also responsible for the failure of the Hungarian economy.

The organization of planning.

The organization-scheme of planning in Hungary rightly shows its bureaucratic nature. According to the scheme presented below every decision made by the Planning Board had to go through seven stages, until it reached the place of production. The frequent modifications

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of the plans caused that the modifications sometimes had not even reached the plants when the new decisions were made.

Planning Board general departments

Planning Board industrial departments

Ministry general departments

Ministry directories

Trusts

Enterprises

Plants.

Even abstracting from the frequent modifications the process of planning was very long ~~to~~ The plans were primarily made by the general departments of the Planning Board, went through the seven ~~stages~~ ~~steps~~ mentioned above, until the original plan was divided among the plants. Then the plants made the so-called "counter-plans" which went back on the same way. ^{by them} Then the Planning Board made the final version of the plan, which was divided among the plants with the method described above.

The above-mentioned organs were not only planning organs, but had also the task to direct the production. It is conceivable how inflexible might be this direction ^{by} through so many stages.

How many data to plan ?

A constant problem of any form of collectivist planning is how detailed should the planning be. There are two rivalising tendencies.

~~The~~ The one maintains the need for planning in great details, the other intends to decrease the centralized feature of the decisions. The supporters of the former view are affirming that favorable results can ~~not~~ be ~~only~~ obtained only through a detailed form of planning.

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where the planning authorities are deciding every important question. The supporters of the second view ^{maintain} held ~~the~~ view that reducing the number of the data to be planned we do not reduce the reliability of planning but rather we release it from the superfluous "paper-work". In practice we see a tendency to increase the number of the planned data. The planning authorities ^{are becoming} become more and more bureaucratic, they feel not "safe" without collecting more and more data because they are far from the real life, from the production, and could get a picture about the economic activity without increasing the number of the data collected. That was the situation in Hungary too. There was sometimes a tendency to decrease the number of the data ^{collected} planned, but in the most cases there was a change solely in the form of the questionnaires. The writing-desks had to produce something too!

The reliability of the statistical data.

Every planning is based on the statistical data of a former period. If the statistical data are not reliable, neither can be reliable the planning. The Hungarian statistics was in a great degree deficient. Not only because of the falsifications made by the planning authorities ~~to show greater results~~ to show greater results (those were probably corrected in the process of planning) and ^{those made} the enterprises (in prices and quantity as we shall see it later) but also in connection with the primitivity of the Hungarian statistics. There were no mathematical methods applied in the statistics and some elementary mistakes modified the actual production results. E.g. deflating the nominal value of production the gross production figures served for the basis of the index. Thus the increase in verticality signified double-counting for a part of the production.

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The reliability of the planned data.

Planning was viewed by the Hungarian enterprises as something of secondary importance. They saw ~~only~~ ^{the} principal use ~~in~~ ^{of} it by planning production and accumulation on such ~~a~~ ^{an} level, which would guarantee the fulfilment of the plan and thus the premium. Besides the permanent modifications of the plans ~~decreased~~ ^{reduced} their reliability. The annual and the quarterly plans were equally often modified. Plan for a longer period than a year was generally not known for the enterprise. In the last year there was a tendency to make five-year plans for the greatest ~~important~~ enterprises, but these plans had no real value. The annual plans of the enterprises were sometimes determined ~~by~~ ^{only} at the end of the year. For example the annual accumulation-plan of ~~the~~ ^a building trust in Hungary was finally stated in January 1955, after the end of the planning period.

For the enterprises only the quarterly plans were of interest, because in the most cases the premia were paid on the basis of the fulfilment of these plans. In practice the plans were always the object of discussion, there was a bargaining between the ministries and the enterprises about the ~~ministerial~~ ^{ministerial} breakdown of the plans of the ministries between the enterprises. Besides there was always a great degree of incertitude about the production plans due to the permanent modifications of the political, military and economic targets.

To give a practical example about the unreliability of the planned data we might quote a personal experience. ~~Thus~~ In the year 1951 the author ~~working~~ ^{having been working} for two weeks in the planning department of the greatest Hungarian construction ~~trust~~ ^{firm} got the task to prepare the material supply of the enterprise for the same year. He had two days to do it. The production plan of the enterprise was known in ~~it~~ ^{value} but the individual buildings to be constructed were only

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(in part known) yet also the material requirements of the single buildings were unknown. There were some normatives at hand to calculate the material-needs of some building-types, which would be presumably constructed. The material-supply plan was made concerning about 400 materials with the method of "suppositions" and "presumptions". Nevertheless it did not differ from the material-plan of the other enterprises which were made by the same methods. The plans were summarized and figured as the material-need of the whole construction-industry, and would have to serve as the basis of the production of these materials in the same year. It is small wonder that there were permanently more or less materials than the ~~request~~ demand for them. The "law of the great numbers" ^{could} ~~can~~ not correct everything.

The Material supply problem.

One of the most important shortcomings of the Hungarian economy was the almost permanent shortage of materials. This shortage was not always absolute, it depended frequently on the maldistribution of the materials, on the desire of the enterprises to accumulate stocks fearing ^a future shortage ~~of~~ the materials. The shortage might be due to the deficiencies of planning too. Besides it ^{could} ~~can~~ be the result of the over- or underfulfilment of the production plans. We might see an example regarding the textile industry.

If the textile industry fulfils its plan by 105 per cent, the cotton and/or wool supply falls short of the demand by 5 per cent. The complexity and rigidity of planning increases this difficulty. In the case of the import-materials there is no foreign currency available to import them, in the case of inland-materials it takes months till the new planning decision might be carried out.

The situation is aggravated in connection with these materials,

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the production of which is influenced by the weather. The decrease in the agricultural production decreases the export possibilities, which in turn reduces the import of foreign materials. Another example might show the effect of the weather ^{- difficult} on another respect: the winter of the year 1955 was very mild in Hungary. The construction-enterprises wanted to work, but the cement and the bricks were contracted to be exported abroad. Therefore ~~there~~ there was no material to continue the construction work although the weather made it possible, because a colder winter was "planned".

The permanent shortages in the different materials caused many losses in Hungary. It resulted not only in the discontinuation of the production but also in unused capacity, unnecessary wages paid about for the workers unemployed inside of the factory.

The economic planning in Hungary.

Summarizing the deficiencies of the Hungarian planning system, we might divide them in three groups: deficiencies due to the nature of collectivist economic planning, shortcomings characteristic in the countries of the Soviet orbit and the "special" deficiencies of the Hungarian planning system.

The deficiencies of collectivist economic planning in general are e.g. the bureaucracy of planning, the need for a huge controlling apparatus, the rigidity of planning and the lack of incentives.

The shortcomings due to the planning in the contemporary communist countries are e.g. the uncritical use of the Soviet results, the employment of reliable party-members instead of experts, the avoidance of the use of Western methods, the effects of the primacy of political and military considerations etc.

Some special characteristics of the Hungarian planning: the lack of autho

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rit. of the Planning Board, the permanent shortage in several materials and the frequent modifications of the plans etc. Yet it is not at all sure that these special deficiencies could not be found in the planning of other communist countries too.

VI. THE SOVIET EXPLOITATION.

1. The "Grossraum-Politik"

The "Grossraum" policy was first favored by Nazi-Germany. Based on political, military and economic considerations the Germans wanted to build up a closed economic system comprising their European allies and later the occupied countries. Politically Germany wanted to ~~strengthen his~~ ^{strengthen his} increase the ties with these countries, militarily intended to increase the production of the mostly needed strategic materials, economically wished to increase the division of labor among these countries. In the years before World War II and during the war Germany succeeded to build up a quite autark economy on the half ^{part} of the European territory and this success was partly responsible for the ~~extra~~ military strength of Germany.

The considerations of the Soviet authorities were strikingly similar to those of the Nazis. Yet one particular point was added: the need for the independence of the "socialist camp" on ideological grounds. The Soviet leaders held the view that for the development of the communist states it would be preferable to lessen the ties with the capitalist world.

Examining the results of the German and of the Soviet "Grossraum"

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policy we might ~~say~~^{state} that the Germans secured better results in the exploitation of the resources and the division of labor. In the Soviet orbit the lack of cooperation for years impeded the achievement of these goals.

The communists aimed ~~at~~^{by} the development of the economies of the satellite countries on the basis of the Soviet ~~development~~^{methods}. The goals were the same in every satellite state: the development of the heavy industry, the investment of the considerable part of national income, the collectivization of ~~the~~ agriculture etc. The economic policy employed in the Soviet Union in the thirties was applied without taking into account the different production-possibilities in the various countries and the advantages of the division of labor. Taking into consideration the natural resources of the satellite countries probably their production would be specialized at the outset.

Besides in the first years after the war it was not yet certain whether the satellite countries will remain in the Soviet sphere or not. Therefore the Soviet authorities preferred the maintenance of the autarky of the Soviet economy for years. Furthermore Soviet Russia was already accustomed to the state of autarky, the planning methods and the economic policy was based on that, thus it took time to shift to a new method. It was not easy to build up a new complex mechanism of international economic relations. For the satellite countries the ideological viewpoint dictated the copying of the Soviet methods of industrialization.

The consequence of the above-mentioned economic policy was that every ~~satellite~~^l country had to build up the same heavy industry, the same industries for the purpose of armament, collective ~~farms etc.~~^{in the agriculture etc.} We do not want to assert that ~~there~~^{there} was no trade between the Soviet Union and the ~~satellite~~^l countries in the first period of planning,

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yet the trade of this period was rather based on the momentary orders of the Soviet Union than on systematic planning. The Soviet-Union imported such commodities, in which she actually had a shortage. Consequently the trade with the Soviet-Union disturbed considerably the economic balances of the satellite states, because they had to modify frequently their production targets, frequently.

The economic policy of the communist states was in the first years of planning very far from a farreaching division of labor. There was no cooperation in the course of economic planning, no consideration of the different possibilities of production in these countries. This economic policy caused the loss of potential advantages for the whole Soviet-orbit. Hungary would have been able for instance specialize herself in some branches of the light industry, and instead of building up a heavy industry with high costs would have bought the products of the heavy ind. from the Soviet-Union or from Czechoslovakia.

The significant change came only in the last years primarily by setting up the Council of Economic Cooperation endeavoring the coordination of the economic plans and the specialization of the different branches of several industries. At the same time the Council of Economic Cooperation has the task to serve more systematically the satisfaction of the Soviet requirements.

It was a great mistake from the viewpoint of the Soviet-Union to neglect the question of economic cooperation for years. It had only one advantage for the satellite countries: they ^{did not become} ~~became not~~ in a great degree dependant ~~on the~~ economically ^{on} from the Soviet Union. Yet this advantage is only potential.

Besides the present Soviet economic policy is already very similar to the "Grossraum" policy of the Nazis.

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Can we speak about an imperialistic tendency in the Soviet-Union ?

The notion "imperialist" has been much used in the last decades. The theory of imperialism was first elaborated ~~marx~~ by Hobson and Rosa Luxemburg, later applied by Lenin. Lenin used this expression denoting a new phase of capitalism. Based on the theses of Lenin the communist propaganda ^{denotes} those countries to be imperialist which pursue a political and/or economic colonization-policy. Later this term has been frequently used by the colonial ^{powers} ~~countries~~ themselves against the capitalist countries. It is not our task here to deal with the theory of imperialism. We intend rather to examine the question whether the Soviet-Union has imperialist tendencies in the sense used above : i.e. a country carrying out political and/or economic colonization-policy.

The October Revolution in Russia wrote on its flag the slogan of Marx: "Proletarians of the world, unite." One of the first declarations of the Russian communist government was the solemn announcement of the equal rights of every people. That was the situation forty years ago. Yet if one intends to examine the events of the last decade, the picture is ^{quite} different. In the last decade the policy of the Soviet Union towards her satellites wears the marks of imperialist tendencies. The political "gleichschaltung" in the late forties has been followed by the economic exploitation of the satellites. The independence of the people is a much used slogan also to-day, but it has been subordinated to the new slogan: "the Soviet-Union is the leader of the socialist world." And the new slogan means in the reality that the socialist countries are to be subordinated to the "great socialist power" of the world.

If we intend to explain the causes of the imperialist tendencies in the Soviet Union we have to consider three factors: the old idea of the Russian people about the redemption of the world, the idea of world communism and the emergence of the Soviet Union as a world power.

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The idea of the redemption of the world is very old in the Russian people. It is not only to be found in the novels of ~~the~~ Tolstoi and Dostolevskij but ~~also~~ ^{with the people} ~~in the political literature~~ ^{was} too. It ~~is~~ connected with the superstitious character of the Religion in Russia and with the expansive policy of the Tsarism. The belief in the Tzar and the belief in the superiority of the Russian religion had a certain interconnection. The Russians really believed to have the task to "redeem" the world. This belief lived further in spite of the changed conditions ~~xxxxxxxxxx~~ during the Soviet regime.

Another source of the imperialist tendencies is the idea of world communism. According to Lenin one of the most important tasks of the Soviet state is to propagate the communist doctrines over the whole world and to help the proletariat of the different countries to achieve the world revolution. This assertion, which was not made so explicitly later, is one of the causes of the increase in the power of the Soviet Union. Besides the ~~xxxxxxxxxx~~ idea emerged that world communism can be not ^{by} achieved without Soviet leadership. This assumption lead to the ^{conclusion} ~~impression~~ that every country belonging to the Soviet orbit has to help and serve Soviet Russia to strengthen her power.

The third factor contributing to the imperialist tendencies of the Soviet state ~~was~~ is ~~its~~ emergence to the first ranks of the world powers. ^{has} The cold war between the United States and the Soviet Union lead the Soviet leaders to the idea that the Soviet state is to be strengthened by all possible means. From the viewpoint of the Soviet-Union it is not at all significant whether the greater strength of the Soviet power means political suppression and economic exploitation of the satellite countries or not. There is only one fundamental matter: the power of the Soviet state is to be strengthened.

The above-mentioned factors have been "blended" in the belief that

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the Soviet-Union is the "elected" country of the world to which every country and people must be subordinated. The logic is the following: the interest of the Soviet-Union coincides with the interest of world-communism, therefore it has to be preferred to the interest of other countries.

Inside of the Soviet-Union the nationalistic tendencies have been stressed. During the World War II. a new slogan was issued: "The defence of the Soviet homeland." ^{Onwards} internationalism has been further propagated, inwards the nationalist viewpoint has been emphasized.

The imperialist tendencies have had their results in the ideological, political and economic field. Regarding ideology it means the suppression of any ideological tendencies which might lead to a digression from the Soviet ideology, the condemnation of any theory that does not acknowledge the superiority of the Soviet doctrines and generally the superiority of everything what ^{comes from Russia} ~~in the Soviet Union~~ happens. This tendency has lead sometimes to comical results: the satellite countries had to recognize the Soviet science as the most developed and progressive science of the world, to acknowledge that every important invention is the achievement of ^{Russian} ~~Soviet~~ scientists, sometimes they had to praise their own accomplishments as the achievements of the Soviet science. The sport-teams of the satellite countries were told to let the Soviet team to win etc. Criticism of the Soviet Union has been interpreted as hostile action against the idea of communism, therefore it was to be suppressed.

The political aspect of Soviet imperialism is obvious. The democratic rights have been suppressed in the satellite countries and communist governments have been extolled on these peoples. The best example for the imperialist policy of the Soviet Union is the crushing of the Hungarian Revolution. Last fall the Hungarian uprising ended with the

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proclamation of the lawful Hungarian government to re-establish the democratic rights, to hold free elections, to declare the neutrality of Hungary and to repudiate the Warsaw pact. The answer of the Soviet government was instantaneous: the Soviet army crushed by force the democratic and lawful Hungarian government and imposed a new puppet-regime to serve the Soviet goals.

In the following we shall examine the forms of economic exploitation.

The exploitation of the satellites.

The economic exploitation has the same reasons as the imperialist tendencies in politics and ideology. Yet the imperialistic feature is here perhaps even more conspicuous, ^{here}.

The Soviet Union has exploited the satellite countries not only for the reasons listed above but also for military reasons. The European satellite countries are too near to the West and this might be dangerous in the event of war. Besides the possibility of uprisings has been proved by the uprisings in Berlin and Poznan, and later by the Hungarian Revolution. It is much safer for military reasons to increase the economic strength of the Soviet Union also damaging the interest of the peoples in the satellite countries.

The methods of economic exploitation are to be found on a great range. The Soviet authorities have been really ingenious finding out the various forms of economic exploitation.

The exploitation ^{through} by reparation payments was used against the former satellites of Germany (e.g. Romania, Hungary) employing price-practices. Price-practices, ~~and~~ currency overvaluation, multiple pricing and different quality requirements for the goods exported ^{and} imported by the Soviet-Union have been used in bilateral and multilateral foreign trade. The exploitation has been carried out through mixed enterprises

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and through Soviet enterprises established in the capitalist countries. These forms of exploitation has been used in connection with the natural resources of the satellite countries (e.g. the Romanian oil, the Hungarian uranium-ore). Finally we might mention the exploitation through the compulsion to support the Soviet army stationing in the country of the satellite states.

In the following we shall examine the various forms of economic exploitation employed in Hungary.

Exploitation through reparation payments.

After the World War II. Hungary had to pay reparations for the Soviet Union. The amount of the reparations was fixed in \$ 200 millions of 1938 value. The reparation was to be supplied in naturalia: in commodities. Every commodity delivered for the purpose of reparation was to be valued in U.S. \$. In fact the value of the commodities delivered was much more than the original amount. The exploitation through reparation-payments was achieved ^{by using} different methods.

The value of the \$ decreased by about 50 per cent from 1938 until the period when the reparations were ^{supplied} made. Combining the reparation-list the Russian preferred such commodities the prices of which increased much more than the average price-level in \$. While the average increase was about 100 per cent, the reparation list contained many commodities the prices of which increased by 200 or even by 300 per cent. Consequently the Soviet got more for the "reparation dollars" than simply the average value difference between the 1938 and 1948 dollar.

Furthermore a part of the goods demanded by the Soviet Union were not available in Hungary. The Russians had two possibilities: to press the Hungarian government to buy the commodity abroad or evaluate the commodity

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the commodity in 1943 prices and demanded the delivery of other goods in the same value. In the first case Hungary had to import some goods required by the Soviet Union and her poor ~~man~~ foreign trade position caused that she had to sell Hungary-made goods below their costs to secure the fulfilment of the Soviet demands. In the second case [↑] because a considerable part of the commodities required consisted in goods the price of which had increased more than the average world market price [↑] the value of the substitutes represented also a greater burden for the Hungarian economy, than the average price-increase would induce it.

The third method of exploitation through reparation-payments was the undervaluation of the commodities delivered. The Russians set very high quality requirements for the goods supplied ~~for~~ as reparation and also in the case of minor quality defects acknowledged only a part of the value of delivered goods. The undervaluation was sometimes more than 50 per cent.

According to different experts the real value of the goods supplied for reparation-payments was about \$700-800 millions. This would signify an excess-amount of \$ 300-400 millions.

Exploitation ^{through} bilateral foreign trade.

The foreign trade between the Soviet Union and her satellites increased in a great degree after World War II. The increase of the trade had political, military and economic reasons. The Soviet authorities wanted to loosen the ties of the satellites with the Western countries and fasten the ~~same~~ ties between the Soviet state and the satellite countries through economic relations too. The military reason was the importance of the independence for the Soviet bloc in the event of war. The economic reason for the intensification of the trade relations

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was partly to take advantage of their position and to exploit them through foreign trade.

The compulsory nature of the trade relations between the Soviet Union and Hungary were conspicuous in the methods of the Soviet orders. The Soviet-Union required the delivery of the products, which she needed, although Hungary sometimes could not produce them economically. On the other side she had to buy commodities from Soviet Russia which that might be obtained on cheaper terms elsewhere (e.g. different machines). Prices practices were frequently used methods of exploitation. The trade between Hungary and Russia is not to be paid on world market prices but on ruble prices fixed by the Soviet authorities. Thus Hungary had sometimes to pay more for the goods supplied by the Soviet Union, than the price on the world market and got less for her own export. An example is the export of precision machines to the Soviet Union which were valued considerably below world market-prices. The overvaluation of the rouble is another example. The purchasing power of the rouble and of the forint is approximately the same. Yet the rouble was fixed on an artificially high level. The rouble was valued as follows: 1 rouble equals 3 forints. (The rouble was overvalued in relation to the currencies of the other satellite countries too.) The consequences of overvaluation are quite different in the "capitalist" world market and in the bilateral agreements of the communist states. In the world market the overvaluation of a currency causes an impediment for the export of the country with the overvalued currency, because the overvaluation signifies a relative increase in the export-prices in comparison with the prices of the world market. If the demand for the export of the country with the overvalued currency is elastic or the demand can be satisfied with the products of other countries too, not only the quantity of the export but also the

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value of the export decreases.

The situation is entirely different between the Soviet Union and her satellites. The export of the Soviet Union did not decrease on account of the overvaluation of the Soviet currency. The trade between the Soviet Union and her satellites is compulsory. Hungary has had to buy from Russia although the terms of trade have been unfavorable for her. To ~~xxxxxxxxxxxx~~ understand the exploitation through the overvaluation of the rouble we have to examine briefly the method of the valuation of foreign trade between Russia and the satellite countries. The great bulk of the commodities was valued in roubles. In this connection - if we do not take into consideration the above-mentioned price-practices - there is nothing to be gained or lost. The import of Hungary was valued by the overvalued rouble, yet her export was valued in the same manner too. Supposing the equalization of import and export the overvaluation of the rouble has no effect at all. In contrary it has considerable effects regarding those commodities which have no rouble-price, are valued in Hungarian currency and this value is reckoned in rouble. Hungary exported different kinds of precision instruments which had no price in rouble. The instruments were valued in forint according to the Hungarian official price-list. The value expressed in forints was reckoned in the overvalued rouble, i.e. on a basis disadvantageous for Hungary. To illustrate our statement with a numerical example: Hungary exported precision-instruments to Russia in the value of Ft 6 millions, this amount reckoned in Soviet currency was only 2 million roubles. The purchasing power of the two currencies being approximately equal Hungary lost about 4 million forints, because she could not buy more Soviet goods than in the value of 2 million roubles corresponding to 2 million forints. The loss was 57 per cent of the exported instruments.

Export value of the

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Another method of exploitation was the establishment of different quality requirements for the goods delivered to the Soviet Union and the goods delivered by the Soviet Union. This method has been mentioned in connection with the reparation-payments too. To use an example about the goods delivered by the Soviet Union: Russia supplied the Hungarian steel-plant at Stalinvaras with iron ore transported from Krivoj Rog. According to experts the iron contents of this ore were by about 30-40 per cent lower than those of the Swedish ore. Yet Hungary had to buy the iron ore delivered by the Soviet Union and to pay for it an price similar to that of the Swedish ore.

Exploitation by multilateral foreign trade.

The exploitation of the satellite countries through multilateral foreign trade can assume two forms: trade in Soviet - satellite - satellite or trade in Soviet - satellite - capitalist country relation.

The method of exploitation is in both cases the utilization of price differences and/or the use of scarce currency. It can be best understood by using examples to illustrate both methods.

An example for the exploitation through multilateral foreign trade in Soviet - Hungary - capitalist country relations: Egypt had asked for offers to build an electricity plant at El Tabin. The Hungarian offer was the lowest, ^{in price} although it was self-evident that Hungary could not construct the plant for that amount. The Hungarian authorities even accepted technical requirements not achievable to get the order. By bidding the lowest price Hungary had to construct the plant for 1,6 million Egyptian £, i.e. for 60 million forints. Unlike the price to be paid by Egypt the costs of construction were until October 1956 about 600 million forints, when the plan was not yet finished. But Hungary had to bid a low price, because the Egyptian £ belonged to the

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scarce currencies and it was badly needed. The ¹Egypt currency was badly needed ^{for} Hungary, but it was not used for the purposes of the Hungarian economy. It was used to buy cotton for the Soviet Union, and the Soviet state paid in roubles for it. Hungary accepted the construction of the power plant in Egypt to provide Russia with cotton. Yet the loss of the transaction was charged on the Hungarian people.

An example for the trade between the Soviet Union and two satellite countries: Russia had a ~~great~~ trade-agreement with Poland to purchase annually x million tons of coal on prices below the world market price. The Soviet Union sold the same coal to Czechoslovakia and Hungary for a higher price. The coal was transported from Poland directly to the country of destination, it was not even transported through Soviet territory. The ~~profit~~ of Russia was solely due to the price differences, it was a simple method of "price-arbitrage".

Exploitation by mixed enterprises.

After World War II many mixed enterprises were ~~found~~ established to utilize and exploit various natural resources in the satellite countries. Later the mixed enterprises in Hungary were handed over to the Hungarian state, but there ^{are no} ~~is no~~ reliable figures how much Hungary had to pay for the proprietorship of these enterprises. According to different sources the price greatly exceeded the value of the enterprises. Mixed enterprises are still favored forms of economic exploitation in Bulgaria and Romania.

Exploitation by Soviet enterprises.

The Soviet Union only rarely used this form of exploitation. It is too conspicuous. Yet in special circumstances it was used too. Such a special case is the case of the Hungarian uranium mines.

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For the modern warfare the uranium has primary importance, being the basis of nuclear energy. In the following we shall describe briefly the history of the Hungarian uranium mines to make clear the role of the Soviet-Union in Hungary.

After months of exploring work in the neighbourhood of Pécs considerable uranium reserves were found. A Soviet enterprise was established which immediately began the work in the mines. In the newly established mines only the workers were Hungarians, the engineers, technicians, geologists etc. were solely Russians. The construction work (construction of industrial buildings, dwellings and underground workings) was made by Hungarian enterprises. It goes without saying that the construction work was also directed and supervised by the Soviet enterprise. The work was begun parallelly in three directions: mining, the construction of industrial buildings and the construction of roads. The Hungarian authorities had not the right to become acquainted with the production of the mines, the Hungarian atom researchers ~~had~~ ^{could} not know about the mines.

The uranium-mines became the most important investment in Hungary. In the time of the beginning of construction there was a great shortage in building materials. Yet the construction-work for the uranium mines was preferred to any other investment. The construction-materials were transported from the Hungarian factories and dwellings in construction to the mines. The construction of many projects was interrupted due to the material-shortage. The Hungarian ministers came in troops to the mines, listened to the orders of the almighty Soviet representative and hurried back to carry out the Soviet demands. A characteristic example for the servility of the Hungarian communist ministers was that the construction of the ~~main~~ new road to the mines was begun through the

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mountains in winter, when the construction was quite impossible and the construction costs of one mile ^{of road} exceeded ^{+ high} about ~~100~~ times the construction costs in ^a normal period. Nobody paid attention to the costs, but the burden fell on the Hungarian economy.

The production of the mines and the uranium contents of the ore is not known. The uranium ore was transported directly to the Soviet Union. The further work was done there.

One of the first demands of the Revolution was to nationalize the uranium mines (that was the first case in the history when a "socialist" enterprise was nationalized). Hungary intended to utilize the uranium ore for herself and to sell the uranium on the world market for world market prices. After the crushing of the Revolution the Soviet owners resumed their work in the uranium-mines and the uranium ore flows further to the Soviet-Union.

The example of the uranium mines is a conspicuous ~~xxx~~ case of the imperialist tendencies in the Soviet Union, the economic exploitation of the satellite countries.

Exploitation ^{through} the support of Soviet armies.

In accordance with the Warsaw Pact the Soviet Union has the right to keep Soviet armies on the territory of the satellite states. The details of these agreements are not known, but according to reliable sources a considerable part of the maintenance-costs of these armies is paid by the satellite countries.

We have described above the various forms of Soviet exploitation, the economic consequences of Soviet imperialism. It is almost impossible to make estimations regarding the importance of the various factors. The data are secretly dealt with, thus one can not do more than to make

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a rough estimate. Taking into consideration the different forms of Soviet exploitation we might estimate its ^{yearly amount to be} ~~amount annually to~~ about 2-3 per cent of the Hungarian national income.

In the former chapters we have been examining some general characteristics of collectivist economic planning and communist economic policy. Furthermore we have dealt with some special Hungarian problems which were ~~in~~ connected with questions of the whole economy. In the subsequent chapters we intend to examine the different branches of the Hungarian economy: agriculture, industry, construction, commerce and transport. After having dealt with the principal sectors of the economy we shall consider some of the main issues: investment decisions, price formation and financial policy, furthermore national income and standard of living.

Besides these results the Hungarian agriculture had many shadows. The distribution of the holdings showed still feudalistic elements. About half of the arable land was in the hands of the great landowners and a considerable part of the Hungarian agricultural population had to live as ~~landless~~ daily-laborer. The methods of cultivation were rather extensive, than intensive. In the thirties there was a tendency to increase the intensivity of cultivation but it had still not sufficient results. The standard of living of the agricultural population - primarily that of the landless laborers - was quite poor and the existence of the great latifundia impeded its increase.

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The land-reform of 1945

In 1945 the great latifundia were ^{distributed} divided among the peasants. Now ~~there~~ ~~the~~ ~~extensive~~ ~~cultivation~~ there was ^{possibility} for intensive cultivation. About 70 per cent of the landless laborers got land, and thus the picture of the Hungarian agriculture changed considerably. The change was not at all smooth. The division of the great units decreased the grain production. At the same time the small landholders had not enough capital and experience to intensify the cultivation methods. Two things were badly needed: credit and the professional education of the new farmers. The communist economic policy did not choose the road ^{of} intensive cultivation in small units, it preferred the collectivization of agriculture after the Soviet model.

The slogan of Lenin.

~~Communism~~ More than three decades ago Lenin declared that the highly developed industry of a socialist state was to be backed by the collectivization of the agriculture. According to him the agriculture organized in small units "is producing from day to day the capitalist" and gives no backing to the development of the industry. The declaration of the new agricultural policy was followed in some years by the fight of the communist regime against the well-to-do peasants (the so-called kulaks) and by the forced process of collectivization. The attainment of these goals caused millions of lives but still 1933 the collectivization of the Soviet agriculture was accomplished.

It is remarkable to note the similarities between the production methods of the American and Russian agriculture. The new forms of agricultural enterprises were developed after American models. In this connection it does not make any difference whether the farms were

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organized as state farms(sovchoz) or collective farms(kolchos).Lenin admired the organization ~~methods~~ and production methods of the American agriculture and copied them in a great degree.The similarity in the production methods was based on the similarity in the land/laborer ratio,which involved the extensive cultivation of the soil with the widespread ~~extensive~~ use of agricultural machines.Yet the Soviet state tried to use the American production-methods in a socialized agriculture where the private initiative was lacking.Thus in spite of the similar production methods the results of the Soviet agriculture fell short of in comparison with those of the American agriculture.

After World War II. the agricultural policy based on the theory of Lenin became the basis for the policy in the satellite states too.It was a question whether the extensive methods of cultivation and the great collective farms were economical or not in countries with a much more dense population.As in any other field the Soviet agricultural policy was to be imitated too.

Are great farms economical in Hungary ?

The density of population in the Soviet Union is $12/\text{km}^2$, ~~that~~ in Hungary $100/\text{km}^2$. These two figures clearly indicate that the line of development in the Hungarian agriculture has to differ considerably from that of the Soviet agriculture. To take another example: the methods of the American agriculture should not be imitated in Denmark, where the density of population requires an intensive method of cultivation to ensure the employment of the whole labor-force. For the American agriculture in general the extensive methods of cultivation proved to be more economical, yet there are differences in the United States too, e.g. California, the special features of which induced more intensive methods of cultivation.

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The extensive method of cultivation operates on a great area with high machine ~~labor~~ and low labor costs. The unit-costs of the production are low, but the productivity of land measured in products is low too. The intensive method of cultivation operates with high labor costs, the productivity of the land measured in the quantity of the products is high. For the Soviet-Union the extensive method of cultivation in large units was more feasible. Yet the density of the population, the low land/laborer ratio requires in Hungary the intensive cultivation of the land, which is more attainable in small units. As we have mentioned above, there was already in the thirties a strong movement aiming the intensification of the agricultural production in Hungary. To increase the income of the Hungarian agriculture and to increase the export of the agricultural products intensive cultivation would be necessary, the basis of which was given by the land-reform.

On the following pages we shall examine the situation in the different types of farms and for the different classes of the agricultural population in Hungary.

The state farms.

Before World War II. the land of the state farms amounted only to 2-3 per cent of the arable area. Immediately after the land-reform the situation did not change, but in the later years in connection with the expropriation of the well-to-do peasants new state farms were established and the area of the state farms reached 10 per cent of the arable land.

Before the war the state farms served special purposes. E.g. horse-breeding, to improve the quality of the bread grain etc. The state farms did not work economically, they operated constantly with a loss. The new state-farms inherited the bad features of the old ones. Although

mass products e.g.

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they had the task to produce¹ corn for consumption, they worked constantly with a large deficit. The productivity on the state farms was not sufficient either. The insufficient results of the state farms might be imputed to the following causes: ~~the~~ poor standard of management, ~~the~~ obsolete machines, ~~the~~ inadequate wage-system and lack of initiative. The former land-estates in Hungary had a great number of agricultural specialists. Although agricultural experts were needed by the state farms, the experts of the former estates were not employed. The cause of this phenomenon was purely political. The specialists who worked formerly with the great landowners were held under the suspicion to be reactionary. Instead of the employment of these experts new agronomes were taught in short courses who had neither sufficient knowledge nor experience to direct the state farms. Yet the political considerations were preferred to the economic point of view.

The machines of the state farms were partly obsolete, partly recently produced machines of a poor quality. Similarly to the other branches of ~~the~~ production, the quality of the agricultural machines was deficient too. Besides there was no incentive to the factories to produce spare parts for the machines (their production-records were higher if they produced ~~the~~ rather entire machines, than ~~the~~ ^{only the} spare parts of ^{them} it) and a considerable part of the machines was permanently out of work. The third cause of the inefficiency in the state farms was the inadequate wage-system. Before the war the system of daily wages and in the event of contracts for a longer time, the system of monthly wages was dominant in the Hungarian agriculture. In the period of socialization the Hungarian communist regime aimed at the introduction of the accord-system in the agriculture too. In the agriculture the accord system resulted in poorer quality of work, because the accord-wage was based on quantitative records, and the wage varied greatly according to the

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quality of the land and the "benevolence" of the supervisor. The laborers got their wages on the basis of their daily quantity-performance, neglecting the quality of their work the result was lower crop-records. The lack of initiative from the side of the management was the same as previously described in connection with the deficiencies of the whole planning system. The leading employees of the state farms had no sufficient inducement to increase production and reduce the costs.

The collective farms.

The Hungarian communist government began its collectivization policy in the year 1949. Following the teachings of Lenin the communists began to "build up" socialism in the agriculture by enforcing the establishment of the collective farms. Yet the results of collectivization were not ^{considerable} sufficient - from the viewpoint of the communists. In seven years only 20 per cent of the land was ^{collectivized} ~~nationalized~~. The attainment of collectivization in the different parts of the country were in direct relation with the pressure employed. The best proof for this assertion is that during the Revolution about 90 per cent of the collective farms were liable to be dissolved and after the crushing of the Revolution the dissolution of the kolkhozes reached - in spite of the efforts made by the communists - ^{the} 50 per cent figure.

The failure of collectivization can be proved through production-figures too. In the year 1956 the productivity of the state farms was by 20 per cent, that of the ~~private~~ individual farms by 50 per cent higher than the productivity of the kolkhozes - according to an estimate made in the Hungarian Ministry for Agriculture. In our opinion the inefficiency of the collective farms was primarily due to psychological factors. The outstanding characteristic of the Hungarian peasant is his individuality. In contrast with the Russian peasant, who was accustomed

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to work collectively in the mirs till 19e5, the Hungarian peasant preferred the individual work. He prefers to work twelve or fourteen hours on his own parcel of land to work for eight hours as daily laborer or as member of a collective. ^{for} For the Hungarian peasantry the idea of the collective farms ^{has been} ~~was~~ always hateful. If forced to enter the kolkhoz the Hungarian peasant tried to work further individually on the small piece of land left to him and to breed livestock and poultry "for himself" (the peasants entering the kolkhoz could retain approximately a half hectare of land for their personal purposes, breed livestock in a limited and poultry in unlimited number). The peasants did not see the direct connection between his work in the kolkhoz and the benefits getting for it. He was suspicious that he would not get the value of his labor. He was no more disposed to work as many hours in the kolkhoz as he did on his individual farm. Instead of working 1e-12 hours a day, he worked only 8-9 hours a day. Solely this difference (assuming constant productivity of ^{an hour of labor} ~~labor~~) is responsible for a decrease of about 2e-3e per cent in productivity. There was no incentive in the kolkhoz to intensify the cultivation. Thus the cultivation became extensive also on those parcels which were formerly cultivated by intensive methods. The quality of the management was similarly poor in the kolkhozes as in the state farms. The president of the kolkhoz was usually the representative of the party. For political reasons the party sent reliable industrial workers to direct the kolkhozes. It is understood that the industrial workers shifting from one day to the other to the agricultural occupation had neither knowledge nor experience to direct the kolkhozes. Besides the peasants were not at all "delighted" for this "invention".

Thus the results of the collectivization policy were not inadequate

from the viewpoint of the percentage of collectivization and from

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The kulaks.

After the socialisation of the factories the principal "declared" enemy of the communist regime became the class of the well-to-do peasants: the kulaks. The fight against them was lead on Russian pattern, only the methods were different: not physical destruction and deportation but solely expropriation.

The kulaks ^{then comprised} ~~comprised~~ the peasants having 20-100 hectares. The kulaks were the most industrious part of the Hungarian peasantry, the majority of them acquired the land with his own efforts, or was the second generation. ~~Some~~ They employed one or two laborers and worked principally themselves on the land. Not only was the productivity of their land high because of their higher knowledge of agricultural methods and better cultivation, but the non-consumed part of their production constituted an important part of the agricultural products sold on the market.

In Russia the kulaks-class was liquidated because they constituted not only important economic power but also political power in the villages. In Hungary the situation was quite different, yet the Soviet methods were to be applied in this connection too. The kulaks were expropriated, they had not the right to join the collective farms and were usually not employed by the state farms, thus they went to work in the industry. The loss of the kulaks as producers and the loss of their knowledge and experience contributed also to the decline of the Hungarian agriculture.

The individual farmers.

After the expropriation of the well-to-do peasants and the partial collectivization of the land the 70 per cent of the arable area was still cultivated by individual farmers on small units (0-20 ha)

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the productivity of the individual farms - as we have seen ^{by now} above - was ~~larger~~ higher than the productivity of the collective or the state farms. Nevertheless the production on the small individual farms was ~~never~~ not developing. The fear of collectivization, the compulsive delivery system, the lack of credit possibilities, the compulsive production of different products and the high taxes gave not satisfactory inducement to produce more. E.g. for years the farmers were compelled to raise cotton on a part of their land, although the weather conditions in Hungary do not permit the efficient production of cotton. The intensification of the cultivation was greatly impeded by the compulsory production of different grains that called for extensive cultivation. The compulsive delivery system was also an impediment of the development in the agriculture. The government taking into consideration the low production records of the state farms and the need for low prices maintained the system of compulsive delivery, which was formerly only a device in war-times. The lack of the free market combined with the low prices paid by the government hindered the most economical use of the land.

The price-policy in the agriculture.

The price-system in the Hungarian agriculture was differentiated. There were three price-levels:

1. The prices paid by the state for the products supplied within the system of compulsive delivery.
2. The prices paid by the state for the products supplied in excess of the quantity prescribed by the compulsive delivery system.
3. The prices paid on the free market.

Viewing the relative share of the quantities supplied ^{for} on the different prices, according to our estimation approximately 70 per cent of the

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production was sold on compulsive-delivery-prices, 10 per cent on the prices of the second category and 20 per cent on free market prices. The difference between the price levels was considerable. E.g. the price of wheat paid by the state for the quantities compulsorily delivered was Ft 30/q, for the excess delivery Ft 150/q, while the price on the free market was about ^{Ft} 250-~~300~~/q. Yet there was no united free market. Usually the market was liberalized ^{not} before the fulfilment of the compulsive delivery obligations. Sometimes it was not liberalized at all. The transportation possibilities were restricted too. The variation in the free market prices was considerable. Taking into account that the prices of the first and second category did not change in connection with the change of production, the differences in the crop of the different years had multiple effect on the price of the free market. The multiple pricing did not lessen the variation in the income of the peasantry. In bad years the peasant had nothing to sell on the free market in good years with the increase of the crop increased the possibility to sell on the free market, the higher price of which signified the increase of ^{income} production in a greater degree than the ~~greater~~ higher yield would induce. The demand was highly inelastic because there was a constant shortage in agricultural products.

The low prices ^{with} for the products delivered in conformity of the compulsive delivery system and the uncertainty about the liberalisation of the market gave no sufficient inducement to the increase of production. Besides the difference between the price paid to the farmer and that charged to the consumer was very great. E.g. the state paid Ft 3/ds for the eggs and charged Ft 18/ds to the consumer. The difference was really a form of turnover tax.

The agricultural production before the Revolution.

The consequences of the communist agricultural policy can best be ^{best}

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viewed in the figures showing productivity and ~~yield~~ production.

	Yields in quintals per hectare	
	1936-40	1950-54
bread grain	13.7	13.9
coarse grain	13.4	16.9
potatoes	31.0	77.2
sugar beet	212.0	172.1
tobacco	1.32	1.09

According to these figures the productivity of bread grain did not change, yet there was a considerable decline in the productivity of the agricultural products ~~amongst~~ which are more labor-intensive. The decline of the productivity is ranking from 5 per cent (coarse grains) to 17 per cent (tobacco).

For some products the yield was even less than before World War I. E.g. the yield of potatoes per hectare was ~~before~~ 80.1 quintals, that of the sugar beet 253.5 quintals in the years 1911-15. Thus in spite of the ~~use~~ of more machines the productivity records were rather poor. The production figures for the same periods are the following:

	Harvests in millions of tons	
	1936-40	1950-54
bread grains	3.01	2.63
coarse grains	3.44	2.34
potatoes	2.31	1.77
sugar beet	1.04	2.02
tobacco	1.72	2.51

The decrease in production was considerable for the most important foods. The decline of the production of bread grains was 12 per cent, that of the coarse grains (which ^{constitute} supply the basis for the raise of livestock and poultry) 13 per cent, that of the potatoes 23 per cent. The decrease is still greater if we take into account the increase in the population of Hungary. The Hungarian population increased between the two periods by about 10 per cent (1936-40: 9,000,000, 1950-54: 10,000,000). Thus the decrease of the production per head of the population was in bread grains 22 per cent, in coarse grains (fodder) 29 per cent and in potatoes 34 per cent.

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The increase of the land of cultivation for the production of sugar beet and tobacco more than counterbalanced the decrease of productivity.

Comparing the production in the years 1950-54 with that of the years 1910-14 the differences are still more marked. The harvests of the above-mentioned products were in 1910-14 the following: bread grains 2.79, coarse grains 2.66, potatoes 1.94, sugar-beet 1.50, tobacco 4.76. According to these figures the production of bread grains and potatoes did not reach the figures before World War I. Taking into consideration the increase of population (about 25 per cent), the production per head declined in bread grains and potatoes by about 30 per cent, in coarse grains by about 15 per cent. There is a considerable decline in tobacco too, while the per capita figure of the sugar-beet reduction does not show any change between the two periods.

In connection with ^{the} production results we might mention the efforts made to produce rice and cotton. The production of these two plants is not economical in Hungary, because the production costs are many times greater than in other countries with better weather-conditions. The cultivation of the cotton was stopped after some years. Yet this experimentation took great dimensions in these years: every farmer was compelled to produce cotton on a part of his land. The average costs of production was Ft 15.000/ton. The high costs were not enough to prove the inefficiency of cotton-production, but after a harvest which resulted in a production of approximately 0, the authorities did finally decide to stop the cultivation of cotton. The situation is similar in connection with rice, yet the rice-production was continued.

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Agriculture and foreign trade.

Before the war the greatest part of Hungary's export consisted of agricultural products. ~~xxxxxxxxxx~~ Hungary ^{would have} ~~had~~ further possibilities to export in the event of the intensification of production. In consequence of the communist agricultural policy the decline in the production of agriculture resulted in a decrease of agricultural export too. In the year 1955 the agricultural import was already near to the value of export (Ft ~~32~~ 39,700.000 and Ft 52,700.000) The situation is still worse in connection with wheat: export in 1955 Ft 4,300.000, import 17,400.000. Neither show the other cereals a better picture: ^{Ft} export 1,300.000, import 12,700.000. We shall see some consequences of the export policy in ~~xxxxxxxxxx~~ a later chapter.

The discussion presented on the former pages show that due to the communist agricultural policy the Hungarian agriculture declined in the planning period.

VIII. SOME PROBLEMS OF THE HUNGARIAN INDUSTRY.

1. The past of the Hungarian industry.

Until 1918 Hungary ^{formed} was a part of the Austro-Hungarian Monarchy. The Monarchy formed an economic unit, where the industrial and the agricultural regions fairly well supported each other. ~~Yes~~ from the standpoint of industrialisation Hungary was in an unfavorable position. Hungary supplied the agricultural products for the Monarchy and the policy of the monarchical government was to maintain this feature of the Hungarian state. The industries in Hungary were mainly neglected, while those of Austria and ~~many~~ of the Czech region were developed. The difference in the present state of industrialization of Czechoslovakia ^(esp. Hungary) ~~has~~ its origins in the economic policy of the Monarchy. In 1918 only about 20-25 per cent of the Hungarian national income was produced in the industry and this percentage grew during the interwar period to 40 %. The agricultural population was in 1918 more than 60 % of the whole population and this percentage declined only in 1938 below 50 per cent.

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During the interwar period the Hungarian industry developed fairly fast. Yet the dislocation caused by the Parisian treaties caused a serious setback during the twenties and the great depression had similar effects in Hungary as in the other parts of the world. Therefore the real development of the industry was perceptible only in the thirties. The growth of the Hungarian industry was quite equitable in the different branches of the industry. New shafts in the coal-mines increased the coal-production, new and enlarged steel plants the iron and steel production, in the light engineering and the textile industry the Hungarian products became competitive with those of the former developed industrial countries. Some products of the heavy engineering industry (locomotives, diesel-engines etc) were also exported to different parts of the world.

The industrialization policy after 1945.

As we have seen above the first task of the Hungarian state after 1945 was the rehabilitation and the reconstruction of the Hungarian industry. About in the year 1950 began the new phase of the Hungarian economy, the development of the heavy industry.

It is not simple to decide the direction of development in a country. The different theories of economic growth emphasize different viewpoints as the method and the goal of the development. The supporters of the comparative cost doctrine lay much stress on the development of those branches of the economy where the country in question has comparative advantage against other countries. Other economists emphasize the importance of the development in the industries where the capital/labor ratio is high, and thus the reinvestment ratio is high too. Without going deeply in the discussion we might state the followings:

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1.If a country has considerable disadvantage in some branches of the industry in comparison with the other countries, the development of these industries means a ^{redirection} of the resources not only from the viewpoint of the world-economy but also from the viewpoint of the country itself.

2.If the industries in question are highly material-intensive and the supply of the materials can not be ensured unless from great distances the development of the industries means the growth of a high-cost industry with constant disadvantages in comparison with the same industries in the other countries, especially in comparison with the industries of the material-supplier countries.

These principles were entirely neglected by the communist authorities in Hungary. ^{also} As in everything, in the development of the industry the Soviet example was faithfully copied. Yet the situation in Russia and in Hungary was greatly different. The huge Russian empire is rich in natural resources sufficient and indispensable for the growth of all branches of industrial production. Yet in Hungary that was not the case. Hungary has good basis for the development of the aluminium, light engineering and the textile industry, but it is not feasible to increase the heavy industry ^{There} of Hungary. ^{Two} data are sufficient to prove this assertion. About 20 per cent of the coal-requirement ~~and~~, 80 per cent of the metallurgical coke and 85 per cent of the iron ore is imported to Hungary. Under these circumstances the costs of the development in the heavy industry constitute an unnecessary burden for the Hungarian economy. Neglecting the facts the communist regime wanted principally the growth of the heavy industry. As the chief secretary of the communist party, Rakosi put it "Hungary ^{has} to become the country of iron and steel". But without coal, ~~metallurgical~~ metallurgical coke and

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iron ore. This phrase reflects the disastrous economic policy of the communist regime, the development of the industry, neglecting the agriculture, the development of the heavy industry, neglecting the light industry, the development of the high-cost industries, neglecting the low-cost industries. But the Russian military considerations and the compulsory decrease of the foreign trade with the Western countries required this solution. The Soviet authorities decided that every satellite country must build up its own iron and steel industry - even without coal and iron ore. The export-capacity of the Hungarian economy would have doubled and trebled if the resources used for the development of the heavy industry would have been given for the light industry or for the agriculture. The forced growth of the heavy industry might have been militarily and politically justified, yet it has been economically unjustifiable.

The uneven development of the Hungarian industries.

The figures of industrial production do not show clearly the uneven development of the Hungarian industry. The reason is simple and clear. The communist industrialization policy designed the decline of the handicraft industry. Through the high direct taxes and through administrative measures the communist regime succeeded in this quest. The greatest part of the artisans ceased to operate. Yet in the index-numbers of the industrial production the factory production substituted for the handicraft production has been taken into consideration without making reduction for the decline in the handicraft-production. Furthermore if there was no change in the technique but the artisans were forced in so-called cooperatives the method of measuring the production was the same. In many cases the cooperatives were only ~~factories~~

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formal and every artisan continued his work in the old framework, thus formally listening to the agitation, getting tax-reductions - and the most important viewpoint in a communist country: not more constituting ^{any work} apparent unreliable elements. This formal change has been reflected in the index-numbers of production as a tremendous increase in the industrial production. There was no considerable change in the production of clothes, furniture or shoes in the Hungarian economy as a whole, yet the indices of the industrial production showed 330 per cent increase in the clothing production, 399 per cent increase in the furniture-making and 189 per cent increase in the leather and shoe industry during the period of the first five-year plan (1950-54). There was no improvement in the food-supply (we have seen it in the former chapter) but the changes in the food-processing show an increase of 170 per cent in the food industry during the same period, because the food-processing ^{which was made on the farms was low}. Thus the indices of industrial production do not show the uneven development of the Hungarian industry. Yet it might be very well demonstrated with the figures of investment. ^{During} the period of the first five-years plan 94 per cent of the gross capital formation served the goal of the development of heavy industry and only 6 per cent was employed for the needs of the light industry. We must stress the fact that these figures are gross data. The negligible amount used for the "development" of the light industry means that there was no development but decline in the technical ^{level} state of the light industry. The official figures do not give us the breakdown of the net investment among the different branches of the Hungarian industry. According to reliable estimates only about 30-50 per cent of the ~~important~~ amount required for the replacement of the depreciated equipment was available. This fact ~~to~~ shows its consequences in the deterioration of the

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machines already ^{now} in the ~~present time~~. Yet the consequences are much more farreaching. Neglecting the necessary replacement there will be a rapid deterioration in the situation of the Hungarian light industry after the equipment will wear out. The shortages in the light industry are already perceptible. The shortages ^{are perceptible} show ~~themselves~~ not only in the deficiency of quantity but ^{primarily} in the deficiency of ~~the first rate products~~ ^{quality}.

Thus the communist economic policy of the uneven development of the industry is demonstrated in the ^{neglect} of the replacement of ~~the~~ equipment wearing out, ^{the} deterioration of the quality ^{of which} and in the export-position of the light industry. Not only the considerable possibilities of the development of export in Hungarian light-industry products has been neglected, but Hungary has lost some of her prewar markets too.

The organisation of the Hungarian industry.

After the nationalization of the Hungarian enterprises the bureaucratic methods were after a short time perceptible. Before the second world war Hungary had one ministry designed to supervise the Hungarian industry, commerce and transport. Until 1956 the number of the ministries concerned with the direction and supervision of the industries increased to ^{nine} ~~seven~~. Besides between the ministries and the enterprises trusts have been organized. Thus the organization of the Hungarian industry is now firm - trust - ministry (In this respect there are differences among the various branches of the industry). Besides the number of the administrative employees ^{in the ministry} has increased in a great degree ~~in the ministries~~ and inside the ministry there is a further breakdown: there are special departments dealing with the problems of the different branches of the industry and so-called

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"general" departments dealing with the problems of the whole industry belonging to the ministry.

The bureaucratic method of organisation is "supported" by the bureaucratic methods of making decisions. From the viewpoint of the operative decision-making the centralisation is highly excessive. Almost every problem of production decisions, the question of wages, the replacement of the machines, the improvement of the piece-cost limits, the ~~management~~ decisions regarding the supply of material etc. belong to the authority of the ministry.

Thus the managers of the factories are not only supervised but directed in almost every respect of the operational problems of production by the ministry. The situation is aggravated by the fact that the ministries do not know the practical problems of the enterprises, they try to employ uniform schemes for the ~~many~~ different needs of the ~~many~~ firms. In the last years there has been a movement to increase the authority of the ~~enterprise~~ directors, yet the results are only formal. The authority of the directors has increased in some unimportant questions, but the operational direction by the ministries has not decreased. The "writing-desks" are seeking for work and they do not give ^{up} their positions.

The production decisions.

We must deal separately with the problem of the production decisions. In the capitalist framework the forces of the market determine the ^{price} ~~price~~, the quantity and the quality of the goods produced. In monopolistic competition the market is influenced by the advertisement, which might shift the demand curve for the products. Under the condi-

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tions of collectivist economic planning the planning authorities decide about the production. There is no market mechanism, which would direct the production as in a capitalist economy. In other words in a capitalist system the forces of supply and demand determine simultaneously the quantity produced and the price of the products. In the collectivist system, the quantity ~~not~~ produced and the price is determined by the planning authorities and the consumption (the demand) has to be accommodated to the existing supply and price. That is why there are permanent shortages in ~~some~~ some commodities and permanent overproduction in others. Yet the shortages in the commodities demanded induce the consumers to purchase the commodities considered "inferior". Thus viewed from the standpoint of consumption the collectivist system ~~do~~ not ensure the maximization of utility for the individual consumer.

Viewed from the standpoint of production the principal characteristics of the collectivist economic planning employed in Hungary is that the production decisions are not made by the enterprises but by the planning authorities. The enterprises get detailed plans ^{is} where the planned production of many commodities ~~are~~ individually determined, the production of these commodities ~~are~~ is being planned ~~in~~ for the different groups of the commodities. This method of planning involves the rational direction of production from the viewpoint of the costs. The decisions of the planning authorities are based mainly on political, military and special considerations ~~maintaining~~ into account the goals of the government. The changes in these considerations cause sometimes rapid changes in the pattern of production of the different enterprises. E.g. in 1953 after the decision (maintained) only temporarily ~~supply~~ factories of the heavy industry have ~~not~~ the task to produce consumer goods ~~the~~ production

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locomotives had to begin to produce as "by-products" house-hold utilities. Yet there was no provision for the equipment necessary to produce household utilities, the production-plan had to be fulfilled, thus the new "by-products" were produced with obsolete handicraft methods. Summarizing: the conditions of collectivist economic planning ~~maximized~~ have been not improving but rather worsening the exploitation of the productive resources and ~~thus~~ have not served the maximization of the utility of consumers.

The technical conditions of the productive equipment.

Investigating the problems of the Hungarian industry we must deal with the condition of the productive equipment too. We have already seen that in the Hungarian light industry the ^{amount of the} gross investment has ^{been} less than the depreciation and wear and tear of the machines. Yet this situation is not only the feature of the light industry. The communist economic policy aimed at spectacular results. It favored the construction of huge new plants and neglected the maintenance of the old ones. The slogan has been always ^{to} ~~serve~~ ^{serve} the construction of the great plants and the means of production have been centered for this purpose. ~~The productive equipment in the industries qualified for export have been not modernized,~~ with the excessive use of the machines the condition of the productive equipment has deteriorated, the costs have increased, ~~but there have been no comparisons with the costs of the developed countries,~~ therefore the competitive position of the Hungarian industry has greatly deteriorated.

Nevertheless the productive equipment of the newly built factories was been far behind the Western standards. The Soviet policy has not allowed the purchase of Western equipment. Hungary had to purchase the equipment of Western equipment through the Soviet Union.

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chase new equipment mainly from the Soviet Union. The productive equipment produced in the Soviet-Union is generally below the Western standards. Furthermore Russia has sold her obsolete machinery to Hungary. ~~Some~~ There have been reliable information about concrete cases when series of machines have been sold to Hungary because in the mean time new and better machines have been produced in the Soviet Union. The trade with Russia have been based on a compulsory basis therefore Hungary has had no other choice than to purchase the relatively obsolete machinery. Consequently the machine-park of the Hungarian industry have been deteriorated absolutely regarding the insufficient replacement and the excessive use of the old machines and relatively because the equipment of the new factories have been not up to date.

The collective contracts.

After investigating some of the problems of the production and productive equipment we might examine some problems of the labor. First the role of the collective contracts in the Hungarian economy.

In the Western countries the collective contracts are really contracts the collective bargaining is really bargaining. The agreements between the employers and the unions are the results of mutual discussions, the outcome of the bargaining process. These agreements determine the wages, the labor-time, the holidays, the working-conditions etc. The contents of these contracts ~~are~~ ^{are} the same in the communist countries too. Yet this is only a formal similarity. In the Western countries two participants with different interests are confronting each other. The trade unions represent the interest of the workers against the interest of the capitalists. In the communist system the substance of the "contract" and of the "bargaining" is missing. The trade-union

is merely a by-organization of the state. Every important circumstance regarding the conditions of work, the wages, the holidays etc. are regulated by the state. It is a custom to sign the text of the collective contract every year, but nobody contributes any importance to it.

The wage-policy.

The wage-policy of the collectivist economies aims - as everywhere - the increase of the labor productivity. We might remember that Lenin praised the methods of scientific management of Taylor and the Soviet Union tried to imitate the accord system used in many American or German industries to increase the efficiency of the work¹⁻⁶⁻⁵. Yet it is impossible to generalize saying that the accord-system is the unique way for every industry and for every form of work. In the last decades a tendency is perceptible in the capitalist countries to return in some ~~work~~ industries requiring very precise work to the ~~hour~~ system of hourly wages, often supplemented by one or other form of premia.

The authorities of the Hungarian economy - in a similar fashion as those of the other communist countries - changed the original form of the accord-system. Besides they tried to employ it for every form of work regardless whether it was useful and economical or not. In this connection we must newly stress an important feature of the communist systems: every economic question is at the same time a political question too. We have seen already that the communist system has a great degree of rigidity. The authorities give out the slogan: "Everyone has to be paid in the accord-system" and directors, supervisors, masters and trade-union leaders try to introduce it everywhere - also in the sections of the economy where it might be economically mischievous. There

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can't be any criticism because the economic question became a political question and everyone who holds a different opinion from that of the party might face the danger to be viewed as ^{an} enemy. It is quite similar to the situation ⁱⁿ of an army, the authorities decide and there is no possibility to criticize it. Hence workers doing ~~precision~~ work requiring ^{very great} ~~immense~~ precision were paid in ~~accord~~ the accord-system, increased their efficiency decreasing precision, which caused much more damage to the economy than the advantage of the increased efficiency was. Another example: charwomen were paid by the accord-system, ~~xxxxxxxxxx~~ fulfilled their norms in 300 per cent, got more wages than ~~xxxxxxxxxx~~ heavy workers, because the quality of their work was not easily controllable.

The accord-system - also in the places of its proper employment ~~gave~~ has given much possibility for cheating for the simple reason mentioned formerly in connection with the psychology of collectivism: nobody has had interest to impede it. In some industries the accord-system has been only formally employed, in truth the payment has been decided on monthly and the records have been corrected afterwards. The most perspicuous example is that of the construction industry. Here in the most enterprises the employment of the accord-system has been only on paper. The workers ~~have~~ earned an average monthly amount which did not at all coincide with the records of the accord system. There have been two methods of falsification: Generally the amount to be paid was computed by the accord system and after that the master "helped" the workers ~~assigning~~ bills for ~~xxxxxx~~ work really ^{it} not accomplished and thus make up to the "normal" monthly earnings. Another method has been to state the monthly earnings and to fill

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out the norm-cards afterwards. The difference has been sometimes as high that the workers have got by 30-40 per cent more than they really produced.

The cheating has been considerable in the other industries too. It has been in connection with the supply of the ^{labor}workers in the different branches of the production and the strictness of supervision. Generally speaking we might estimate the difference between the amounts earned regarding the norms and the amounts ~~paid~~ having paid out approximately ^{1/5} 5-10 per cent, in the construction industry still more. In connection with the accord system we examine another aspect of it: the "tightening" of the norms as a method of the "intensive lengthening of the labor-time" as Marx would put it. In the communist countries the revision of the norms occurred periodically in every three or four years. The revision of the norms brought the "tightening" of the norms i.e. for the same amount of work less was paid. The norms were not only changed in the event of a technical innovation or the employment of new machines, they were revised on the basis that "the conditions of work" ^{had been} improved, that the efficiency of the workers had been increased. The workers tried to fight the tightening of the norms. They could not fight it openly, so they fight it by producing commodities of lower quality, by falsification mentioned formerly etc. They tried to maintain the former level of earnings. Yet even if they could succeed in maintaining the former level of earnings the psychological factor ^{still} worked: they felt themselves to be deceived and to be exploited by the state, as we have discussed formerly the psychological effects of suppression.

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better machines, skilled helpers and they have got the "well-paying" ^{tasks} works. This might seem to be self-deceit, yet the managers of the factories had to "produce" some stachanovists and thus they produced them. For a Western man this process might seem senseless. Yet it has had ~~some~~ psychological, sociological and economical background. The communist authorities wanted to have a group of workers which - ^{having} greater income - be devoted to the communist system. That has been the cause that the political reliability was so important in the selection of the stachanovists. The stachanovist-movement has had to serve as the force of the so-called socialist competition: the competition among the workers to achieve greater results. And the socialist competition has served to exert ~~some~~ quasi-moral pressure on the workers ^{to} increase their productivity. Furthermore - as we have stated above - the results of the stachanovists have been taken into consideration fixing the new norms, thereby raising the efficiency of the workers and the surplus-value produced by them.

How to get premia 1

As the most important problem for the manual worker has been to increase his earnings employing every possible method and getting more than the wage earned on the basis of the norms, the goal of the white-collar workers has been to get premia. As in every communist ^{country} the salary of the technical and administrative employees has been very low in Hungary. An engineer has got about Ft 1600 (in purchasing power \$ 100), an accountant Ft 1200 (\$ 75) monthly. For the managers, for the leaders of the departments and for the engineers and technical ^{premium} chians it has been possible to increase their earnings through premia. ~~fixing group employees~~

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If this group of employees could get premia the other groups of the white-collar workers have received an unsubstantial amount of remuneration too.

Therefore the main objective of the employees in leading positions has been to get premia. The government tried to fix the premium-system in such a way that it might induce the management to improve the work of the factory, to increase production, to reduce costs etc. In the first years premia have been paid in the event of the over-fulfilment of the production-plan. Later when ~~the~~ beside the fulfilment of the production plan the reduction of costs became the ~~second~~ main objective of the government authorities, the premium-conditions were in changed in such a way that beside the fulfilment of the production plan the reduction of the costs became the second condition. Eventually there were other premium-conditions too but these were not important; consequently we shall not deal with them here.

Yet the aim of the managers and engineers has been not the fulfilment of the production or of the cost-plan, but the fulfilment of the ~~main~~ premium-conditions. The question may be raised that after defining the ~~two~~ concepts as identical, how can we find difference between them. They have been identical in theory, but not in practice. The fulfilment of the premium-conditions though corresponding to the spectacular fulfilment of the plans of the factory, ~~has~~ generally ^{has} not coincided with the interest of the economy. We might illustrate our assertion by some examples.

The premium might generally reach 75 per cent of the monthly salary. Regarding the low salaries, this sum has been very considerable. While the basic salary generally provided ~~the~~ for the purchase of the subsistence-goods, the premium gave possibility to buy goods of the

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second orders: clothing, luxuries etc. Therefore it has been a necessity for the engineers and similar groups to get premia and they used every means - because of the rigidity of the system there have been such means - to attain this aim.

The first premium condition ^{by} was been the fulfilment of the production-plan. In different industries the premia have been paid for periods consisting of one or three months. If it has been paid monthly, the monthly production showed a zig-zag line, the high production of one month had been followed by the low production of the subsequent month, then had come another month with high production records etc. The reason is very simple. If the fulfilment of the production plan was in different months: 120 %, 75 %, 110 %, 70 %, the management got premia for the first and for the third month, but there was no deduction from the salary in the second and the fourth months. Thus also the average production during the period was below the 100 % mark, premia were paid out. If the premia were paid quarterly, the production-results of the three-months periods showed similar results. It was quite impossible to have a considerable overfulfilment of the production for a longer period, because the targets were very high, but it was possible to "manage" the production-results in such a way that the management got premia at least periodically.

There ~~xxxxxxx~~ ^{were} different methods to achieve the above-mentioned goal. The simplest method was to report a part of the production in the next month or vice versa taking into account the premium-possibilities. Another method was to produce commodities with higher material-content in the months when the ^{possibilities} "hope" for premium were greater and ^{to} produce the labor-intensive commodities in months when the possibilities for premium were less. The inconsistency of the management

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Hungarian engineers always helped to find out new methods. The usual ^{practice} custom of the management was to wait till the end of the month, to ^{estimate} stating the production of the month and then it was decided whether it was useful or not to use the "reserves". The reserves might consist in non-recorded production, in the ^{valuation} estimation of the unfinished products etc.

To of the last period
The problem was been different if the maximum of the production was been limited. That has been the case in some industries using material of foreign origin. In these industries the over-fulfillment of the production-plan has been not permitted and premia have been paid in the event of the 100 per cent fulfillment. That has been the situation e.g. in the ~~gum~~ factories producing gum-ware. In these factories just before the end of the month the management stated the production-results. If the production was excessive, the difference was reported in the next month, if it was deficient, it was increased in the last days by overtime work.

Another example from the gum-ware factories which show the ingenuity of the Hungarian engineers to circumvent the regulations of the communist authorities. In some factories the ~~gum~~ fulfillment of the production-plan was measured by weight. The factory in question had to produce x tons of gum-ware monthly. On the last day of the month if the production was deficient the management ^{ordered} had to pump a little air in the gum-ware and thus attained the desired weight.

In factories manufacturing different products the price relation of the products did not coincide with the ratio of the costs. That is natural in an economy where the prices are arbitrarily fixed. To fulfil the plan and to get premium a generally used method has been to produce these products whose price-cost ratio was

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the most favorable. If the cost-considerations were not important from the viewpoint of the premium these commodities were produced the price-labor time ratio of which was the ^{highest} greatest. Thus the products with higher labor productivity were favored. Naturally this method has been applicable if the production had been planned for groups of commodities and not for individual commodities. It goes without saying that this "method" of production was not in conformity with the needs of the consumers. It has been a ~~common~~ frequent case that from some commodities only those of greater size were available. The factories favored to produce shirts or hardware of the greatest size. In other factories where the material-contents of the different commodities differed greatly those with ~~greater~~ higher material-contents were favored because the manufacture of ^{these} commodities increased the labor-productivity.

Examining the case when the fulfilment of the cost-plan (the reduction of the costs) was also premium-condition, we might see other examples. In this event the ^{task} ~~work~~ to get premia was partly for the calculation and the accounting departments. The calculation department had to calculate higher prices, the accounting-department had to ^{modify} ~~change~~ the balance-sheet in conformity with the premium-requirements.

In every accountant-course has been taught that the main difference between the capitalist and the socialist accounting had been, that the accountant of the capitalist enterprise had had to falsify the balance-sheet in the interest of the capitalist, to evade taxes etc, while the balance-sheet of the socialist enterprise had showed the reality. In the Hungarian communist economy ^{this question} ~~that~~ has been very far from the reality. The balance-sheet ~~was based~~ ^{modified} in conformity with the premium-requirements. If the possi-

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bilities for premium were good, the balance-sheet showed a profit, if the possibilities were unfavorable not only the loss of that quarter but also the loss of the former or often that of the subsequent period ~~were~~ imputed. E.g. If the premium conditions were the fulfillment of the production-plan and the reduction of the costs, in the event of the non-fulfillment of the production-plan the chief-accountant had to work out the balance-sheet in such a way that loss would be ~~ascertained~~ ^{the result} and therefore the enterprise would have a "reserve" for the next period. the consequence of these manipulations was that sometimes not only the profit and loss of the enterprises but also the profit and loss of whole industries varied periodically.

One could ask the question about the revision of the balance-sheets. The answer lays - as in many other cases - in the question of interest. The balance-sheets of the enterprises were supervised by the revisors of the trust. But the trust and personally the revisors had the same interest as the managers of the enterprise in question. Therefore they approved the balance-sheet. Sometimes there were differences in the interest of the enterprise and that of the trust. That was the case if the results for the enterprise differed from those ~~relating to~~ ^{regarding} the trust as a whole (consisting of more enterprises having different results). In that case it was not easy to determine the outcome. The enterprise wanted to show a profit, the trust wanted to make "reserves" or vice versa.

The balance-sheets were generally supervised by the revisors of the ministry too. There were various possibilities: the revisors did not observe the falsifications, they observed it but they ~~were~~ did not bother themselves because they had no interest to ~~change~~ ^{modify} it on the basis of "live and let live" or they were bribed. But generally they

Accepted
the balance sheet.

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The quality of the products.

In capitalism the quality of the products is a very important factor. The competition (it does not matter whether it is perfect, pure or monopolistic competition) eliminates the producers whose product is of worse quality. The problem of quality has equal importance in the conditions of oligopoly too. In this respect there is no substantial difference between competition and oligopoly.

There is no competition in the collective economic system. The products are even more standardized than in capitalism, the quality differences disappear. An often used assertion of the communist economics is that the production of the communist state has the task to satisfy the requirements of the population. We might better denote the communist economic system as the economy of shortage. There is no market in which would equilibrate through "tâtonnement" (groping) the needs of the consumers and the production. It is impossible to reach the same objective through planning (as we have seen in Ch. I.). There is a permanent overproduction of the commodities not needed by the consumers and a permanent shortage in less or more commodities badly needed. It is psychologically quite understandable that taking into consideration the actual or the potential shortage in some of the most demanded commodities the consumers have no other choice than to purchase products of lower quality too. Furthermore there is virtually no import in commodities designed for ^{consumption} production, thus the consumers have not the possibility to compare the different products, or if they may do it, they still can not buy the foreign products of better quality. The import from the other satellite countries sometimes might ^{certain} comprise goods of better quality, that might be the sole exception.

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And what is the interest of the producing enterprise ? In the communist economic system production and marketing ~~tasks~~ are entirely separated. In capitalism for the enterprise it is not enough the ^{to} produce certain units of goods it has to sell them through special selling organs or through its own selling departments. Yet in both cases it is directly interested in selling because if ~~they~~ its products will not be purchased the production ~~is~~ has no value. Therefore the aim is not only to produce but also to sell. This circumstance provides a direct relation between production and the market. There is no such thing in the communist system. The aim of the enterprise is ~~the~~ increase the value of production. Yet this value is quite independent from the market. The production, the fulfillment of the production-plan, ~~the~~ and ~~based on this~~ the premium of the managers ^{based on it} ~~are~~ calculated on the basis of plan-prices. The enterprise is not interested in marketing because its goal: the increase in the value of production (measured on plan-prices) is reached with the finishing of the product and it is not to be changed if the products do not sell. Besides - as we have seen above - in consequence of the actual or potential shortage in the commodities - finally almost every product will be purchased. ~~Thus~~

Thus the enterprises are not interested in the selling of the products. This implies that they are not interested in the quality of the products. Generally with the employment of the same resources it is possible to produce more products of ^{lower} ~~the same~~ quality ~~than~~ or less products of a higher quality. The interest of the enterprise is the increase of production, therefore it is natural that it chooses the former alternative.

We might examine this problem from the viewpoint of the workers

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in the productive enterprise. Here we are confronting the same problem as ⁱⁿ the case of the enterprise itself. It is easier to produce commodities of lower quality, the worker can increase its efficiency with decreasing quality of the products. Besides the frequent tightening of the norms directly induce them to worsen the quality of the products to maintain their earnings. The communist authorities tried to hinder this process through the organization of quality-control departments. Yet if the interest of the management and of the workers was the same: to produce commodities of lower quality but in greater quantity the quality-controllers were compelled to mark the low-quality goods as high-quality goods. If the management would aim at high-quality production, the quality-control revisors were under psychological pressure from the side of the workers to do the same as before. So it is no wonder that the communist authorities acknowledged the reality ^{activity} of this phenomenon: "The quality of a number of consumer goods deteriorated owing to an exaggerated drive for quantitative results" (Szabad Nép, the Central Organ of the Hungarian Communist Party, June, 19. 1956)

The determination of the prices.

In the capitalist system the demand for and the supply of the products determine simultaneously the quantity produced and the price. In a collectivist economy the quantity of the production ^{is} being determined by the planning authorities, the prices are ~~then~~ being ~~as~~ fixed by the same authorities too. therefore not the demand and supply determine the ^{price} produce, rather the supply (the quantity produced) and the price determine the consumption - which generally differs from the potential demand for the products. ~~The consequence of this phenomenon is that we have seen it formerly, the power of the market is not the same as it was formerly, the power of the market is not the same as it was formerly.~~

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~~overproduction in most of the commodities. Yet regarding the problems~~
Now we shall examine the question of prices
~~of the industry we are examining this question from the viewpoint~~
 of the enterprise.

The enterprise has ~~the~~ prices to reckon with: the so-called plan (or unchanged) price and the actual price. The fulfillment of the production plan is being stated in plan-prices, the profit or loss of the enterprise is being stated in actual prices. Thus theoretically the fulfillment of the plan is ~~measured~~ being measured in unchanged prices therefore ~~that~~ it is impossible to increase the production through price-manipulations. Yet the reality is far from this.

In Hungary - as in the other countries of the Soviet-orbit - the plan prices (~~stated~~ ^{fixed} always at the beginning of a planning period: generally five-years) were determined for the products initially produced at the beginning of the planning-period. On the other hand the prices of the products introduced during the five-years planning period were fixed at the time of the introduction of the new product. The interest of every enterprise has been to inflate the prices ~~and~~ thereby increase the production. Therefore naturally they preferred the ^{production of} ~~production of~~ new products, the prices of which might be fixed on a higher level taking into consideration the permanent price-increases in Hungary from the year 1946. On the other hand the individual determination of the prices of the new products made possible to calculate ^{charge} to some indirect costs ~~as the costs of the new products~~. Now we are arriving at coming to the definition of the "new" products. A product has been considered as "new" product if there has been a change in the material-contents of the product. Thus the enterprise has changed the material-contents of the product by a - generally small - percentage and thereby it had the right to calculate a new price. This method

Not connected with the new product as its cost

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has been greatly used in the textile-industry and in the production of the household-utensils.

Only a part of the new prices had to be fixed by the Planning Board. The greatest part belonged to the authority of the ministries. Practically the calculation-department of the enterprise calculated the new price, the ministry supervised and approved it. We are confronting here the problem of interest too. The ministry was not interested in the reduction of the inflated price, because the higher production-results of the enterprise increased the plan-fulfillment of the superimposed ministry too. Furthermore the vice-revisors of the ministry had no interest to reduce the new prices and thereby reduce the earnings of the employees in the enterprises.

The goals of the enterprises.

In the foregoing we have clearly stated the goals of the enterprises in the communist system. The personal interest of the management is to increase their earnings - a substitute for the profit-motive - and this goal might be achieved through the ^{utilization} exploitation of the rigidity of the communist economic system. The goal is to increase the production measured in prices, not the increase of the real value of production. Thus the needs of the consumers are quite negligible from the viewpoint of the enterprise, and there is a bias to produce low-quality goods, thereby increasing the ~~maxim~~ nominal value of the production. Furthermore the increase of the nominal value of the production might be achieved through the increase of the prices. Thus the increase of the production reckoned in plan-prices, which is used to show the increase of the production in the communist system is greatly ^{deprived of its original} ~~devoided of any~~ meaning.

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Similarly the achievement of a profit is largely a matter of price-inflation. Besides the ~~constant~~ permanent purpose of every enterprise to increase the prices causes a slow general increase of the prices in the whole economy. The exception is the situation in some enterprises producing raw materials, where there is no possibility to inflate the prices.

Summarising in the absence of the market mechanism there is no mechanism to ensure the maximal exploitation of the resources and the maximisation of the satisfaction of the consumers.

IX. THE CONSTRUCTION INDUSTRY IN HUNGARY.

The past of the construction industry.

In the following we shall examine the situation of the Hungarian construction industry to give insight through the problems of one special industry to some ^{questions concerning industry} ~~Hungarian industrial~~ question in greater detail.

The Hungarian construction industry was organized on a small-scale basis before the second World War. There were some large-scale enterprises but the general feature of the industry was the small-scale basis. After 1945 the needs of the reconstruction work required the increase of the production in the construction industry, higher productivity and the organization of greater units. After the nationalization the tendency of concentration was followed further out. Thus in this connection the development of the construction industry seems to have been healthy. Yet there have been other circumstances leading to another direction.

The organization of the construction industry.

The organization of the construction industry was similar to the organization of the other Hungarian industries. The work of the enterprises was supervised by the trusts and by the ministry.

The trust-system was based on Soviet experience. In the Soviet-Union the trusts direct great enterprises working in different places. The labor-force of one enterprise amounts to 5-10,000 workers, the trusts comprise generally five or six enterprises. This system was initiated in Hungary ^{but} ~~the~~ the labor-force of an enterprise was only a fraction of the labor-force in a Soviet enterprise. The Hungarian construction enterprises employed generally 500-1,000 workers, similarly to the Soviet Union five or six enterprises belonged to a trust, thus the labor-force of a trust amounted to 4,000-5,000 workers. Economically it was quite unnecessary to have the trusts above the enterprises, it would be much more economical to organize the industry in greater units, but without this ^{doubling} ~~twofold~~ direction. The organization of the trusts not only greatly increased the bureaucracy but also rendered more difficult the operative direction of the construction projects. To examine it from the cost side the maintenance-costs of the trusts increased the price of the construction-work by about two per cent. The operative direction of the working projects ^{was rendered still more} ~~was not~~ ~~aggravated~~ by the existence of the bureaucratic organization of the Ministry for Construction. Before 1945 there was a department in the Ministry for Industry, Trade and Communications, consisting of 10-12 members, dealing with the problems of the construction industry. In 1956 the Ministry for Construction employed about 2000 people, the rule "the writing-desks seek for work" ^{can} ~~has~~ been applied to this ministry too. As we have seen in the former chapter the functions of the ministries

difficult

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comprised not only supervision and planning, but also the distribution of the materials and operative direction. This circumstance further aggravated the operational work of the enterprises.

According to the Hungarian scheme of organization the Design Bureaus were separated from the enterprises. Thus the designing and the calculation work was not made in the enterprise. ^{construction} This method of organization has different repercussions regarding the price-determination, ^{as} we shall see ^{it} them later.

Dealing with organizational problems we have to mention that there was no competition between the Hungarian construction enterprises. The projects were allotted to the enterprise without having any choice from the viewpoint of the enterprise. Every county ~~had~~ ^{had one} enterprise to work on the smaller projects, and there were special enterprises working on the projects of a greater value. We must note that beside the enterprises of the Ministry for Construction almost every ~~ministry~~ ^{construction -} ministry had its "own" enterprise. ~~for~~ (See Ch. 5.)

The plan-fulfillment in the building industry.

Until 1955 the fulfillment of the production-plan was the only condition of the premium. Therefore the ~~endeavour~~ ^{aim} of the enterprises aimed principally the overfulfillment of the production-plan. There were two possibilities to achieve this aim: to increase the production in physical unit or to increase the price. We shall deal with the second problem separately, here only the first problem does concern us. Until 1955 the cost-considerations played no role at all. Getting premium in the event of the fulfillment of the production-plan the enterprises did not bother themselves about the costs. This one-sided viewpoint caused a great increase in the construction-costs. ^{to} The distance and the method of transport, the wages etc. were not

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taken into consideration if the increase of the costs resulted in the increase of the production too. This method leads to the waste of materials, to the increase of the transport-costs and of the wages.

Abstracting from the cost-considerations presented above ^{we have to be} ~~supplemented by the estimation~~ ^{now the control} of the work performed by the accounting period. The work performed was supervised by the employees of the investment firm and the investment firm had to ascertain the quantity performed in the accounting period (one month). Dealing with this question we are newly confronted with the ^{problem} of interest. What is the interest of the investment firm and what is the interest of the employees of the investment firm?

In capitalism the costs of the investment have to be amortized in the price of the products. Therefore the capitalist enterprise is interested to reduce the investment costs, hence not only to reduce the price paid for the different installations but also to strictly supervise the quantity (m^3 of concrete etc.) ^{of the work} performed by the construction enterprise. The socialist investment firm has no such problems. The Planning Board supplied it with an amount determined before the beginning of the construction work and the cost of investment has not to be amortized in the price of the commodities to be produced, because in the communist economic system there is no interest ^{rate}. Furthermore since it is quite easy to get more money from the Planning Board, it is enough to show that the actual investment-costs were greater than those initially calculated and the so-called investment-credit is to be increased. Therefore the investment firm has no interest to strictly supervise the work performed because the investment-costs are not in connection with the future costs of production of the investor. From the viewpoint of the employees of the investment-firm the situation is similar. Yet there is another question too. The employees of

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the investment-firm have been getting their premium after the plan-fulfillment of the investment-firm. And what determines the plan-fulfillment of the investment-firm? To spend the money provided for the investment-purposes by the Planning Board. Therefore from the view-point of the premium not the physical performance of the investment has been the decisive factor but the spending of the investment "credit". It is no wonder that the employees of the investment firms having the same interest as those of the construction enterprises have permitted the payment for not-performed work too. Furthermore taking into consideration that the investment-credit has had to be used ^{up till} at the end of every year, the investment-firm was more "thrifty" during the course of the year, yet at the end of the year it had to spend the remainder ^{of} of the investment credit, because the credit was valid only for one year and if it would not be spent, the employees of the investor-firms could not get premium. The variation of the construction-production clearly proved this assertion. It would seem self-evident that in the last month of the year, in December the production would not be more than 60-70 per cent of the ^{monthly} average partly due to the cold weather, partly due to the Christmas holidays. Yet the production in December ^{of} every year exceeded the ~~monthly~~ ^{monthly} average by 20-30 per cent. It seemed that ~~the~~ December would be the best month to perform construction-work. The ^{correct} solution is very simple: the financial plan of the investment enterprises ends with December. The quantities not accepted till that month were accepted now to spend the investment-credit, to fulfill the plan of the investment firm and to achieve premium for the employees of the investment firm. Yet we do not want to assert that this phenomenon would be ^{restricted to} ~~stated only in~~ December. In a less degree it might be stated

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in every month. A good example ~~illustrates~~ in June, 1956 the revisors of the Investment Bank stated in Stalinvares concerning a building constructed in the steel-plant that instead of ~~the~~ about 4 million Ft really performed 5 million Ft was paid by the investment firm, because the quantities performed were about by 25 per cent higher counted than really performed. The actual performance

The revisors of the Investment Bank tried in some cases to ascertain the falsifications, but partly due to their relatively small staff partly due to the difficulties to ascertain the falsifications after the work in question had been finished, they had not much result. Generally we might estimate the quantity of work not performed but paid for by the investment firm about 10-12 per cent of the production of the construction industry.

The quality of the construction work.

Concerning the quality of the construction work the situation is similar than in the other branches of the industry. The ^{local} purpose has been the fulfillment of the plan, the managers and the workers of the construction industry have been not materially interested to perform work of higher quality. The deterioration of the construction-work in Hungary in the last ten years might be attributed to this factor. The situation has been aggravated by the low quality of the materials. There has been a constant shortage in materials, therefore it has been impossible not to accept the material sent to the place of construction. Thus towards the investment firm the construction enterprises ^{would} have argued ^{that the low quality of the construction work was due to the low quality of the materials} if the question of quality has emerged. The deterioration of the quality has been further increased because of the short time permitted to finish the construction work. Generally the enterprises has had to speed up the work in

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the last months of construction that did not improve the quality. The low quality of the construction-work might be seen primarily in the case of dwelling-construction, where the cost of repair has amounted to ^a considerable percentage of the original construction costs in the first year after the building had been finished.

The determination of the prices.

The determination of the prices ~~differs~~ in the construction industry differs greatly from the methods used in the other industries. The products of the construction industry are generally individual products (if one build a series of identical houses there is still a difference because the ground of the building differs). In the other branches of the industry the production is mainly mass-production, the same products are produced in series. Therefore it is sufficient to calculate the price for the first series and the price might be used for a long period ^{until} there is no change in the technology of the production. In the construction industry the prices of the products (buildings, bridges, underground workings etc) ^{are} have to be calculated individually.

As we have seen above the prices in the Hungarian construction industry have been calculated by the Design Bureaus. There ~~have been~~ ^{was} no plan-prices for the construction industry, it has been supposed that the prices have been calculated on an unchanged basis, on the 1952. I. I. ~~price-niveau~~ ^{level}. In reality these prices ~~have not~~ ^{did not} corresponded to the 1952, but - as we have seen - there has been a considerable increase after 1952. To illustrate this we have to examine the method of price-determination.

The technical projects ~~have been made~~ ^{have been made} by the and the calculation of the costs (i.e. the price) have been made by the Design Bureau. The

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building enterprise, appointed by the Ministry for Construction, made a counter-calculation, in which it tried to prove that the price calculated by the Design-Bureau was too low. Now we are getting at the problem of interest. The Design Bureau was not interested to ~~push~~ ^{push} the stick to a lower price because the costs of the construction were quite indifferent for it. Theoretically there was a possibility for the Design Bureau to get fined by the investor-firm, because of ^{gross} mistaken calculation, but this in reality almost never occurred. The investor-firm had no interest to maintain the prices as we have seen formerly in this chapter. Besides they were told by the construction enterprise that without higher prices the engineers and the technicians ^{could} not get premia and without premia the termination of the project is uncertain. Thus the counter-calculation of the investment construction firm was generally accepted in the interest of the ^{early} termination of the construction.

There were cases when the counter-calculation of the construction-firm was partly or entirely not accepted. Then the Ministry for Construction had to decide about the price. The Ministry for Construction was the supervisory authority of both the construction enterprise and of the Design Bureau. It had interest to approve the higher price because higher price meant premium and higher production for the construction firm and thus higher production for the Ministry as a whole too.

From the year 1955 the fulfillment of the production plan was not ^{sufficient} enough, the enterprise had to reduce its costs too. The construction firms ^{chose} the easiest way to ~~manage~~ ^{manage} achieve profit: they increased the prices. For the balance-sheet it does not ^{matter} ~~matter~~ whether there is a real reduction in the costs or there is an increase in the prices. The difference between the gross earnings and the gross costs gives

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the profit or the loss of the enterprise, every product has an individual price, thus it is impossible to state whether the profit has been due to increased prices or decreased costs. All these price-practices caused a significant increase in the price of construction work and thus in the cost of investment. The price-increase consists of the following elements:

1. The increase in the prices achieved through the counter-calculation of the enterprises, aided by the decisions of the Ministry as price-fixing authority might be estimated for about 5-6 per cent of the initial prices in 1952.

2. From the year 1955 a new element of the price-calculation has been introduced to increase the prices. That has been the so-called "costs arising from the special circumstances of the working place." These costs consist of the costs arising from the fact that ^{considerable} the great part of the workers do work in great distance from the dwelling-place (costs of lodging, travel etc. paid by the building enterprise). In 1952 these costs were less and they were computed in percentagewise among the regie-costs. In the mean-time these costs ^{was} have increased. There ~~was~~ no deduction from the regie-percentage (which has been calculated percentagewise related to the direct-costs) but in the mean-time these costs were calculated separately, also percentagewise to the total costs. Later this mark-up was given for every construction work, yet it was different for the different working-places. As an average we might estimate a 9-10 per cent increase due to the calculation of this new cost-factor.

3. A third method to increase the prices in the industry had been the following: in the great factories the construction work was performed parallelly with the production of the factory. This fact meant some real excess-costs for the construction firm, which

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could not be calculated in the prices, because ^{their} its magnitude was quite uncertain. Therefore the aim to get premium induced the construction enterprises to try to estimate percentagewise the costs arising from the "impediment" due to the work of the factory in the period of construction. They agreed with the investment-firm in a percentage to be charged for these costs. This new "invention" proved to be a good method to raise the prices. We do not want to repeat here ~~the~~ our former remarks concerning the interest of the construction enterprise and the investor firm. The outcome was that they agreed in a sum covering about three times the amount of the costs due to the actual impediment of the construction work. In some factories these amounts were quite considerable, e.g. in the steel plant of Stalinvaros these costs amounted to 7-8 per cent of the value of production (about 7-8 million forints). As an average we might estimate the excess-amount paid by the investors due to these "make-up"s 3-4 per cent.

Summarising: due to the above-mentioned forms of price-increase the prices of the construction undertakings ^{have} increased from 1952 till 1956 by about 23-24 per cent. Thus the official Hungarian figures of production must be discounted by this percentage. This price-increase similarly inflated the value of the investment. We must add to this percentage the payments for the work not performed, thus we get about 31-32 per cent, ~~minimum~~ The example of the construction-industry clearly shows the "reliability" of the official figures of production in Hungary.

X . C O M M E R C E A N D T R A N S P O R T A T I O N .

A. Domestic trade.

The socialization of the Hungarian commerce.

The socialization of the Hungarian industry was followed by the socialization of the commerce too. First the ^{wholesale trade} ~~trade on large scale~~ was nationalized, later the overwhelming part of the retail trade too. The result of the nationalization-process has been similar as in the industry. The private initiative and the private interest functioned no more ^{having} ~~which had~~ unfavorable effects ^{on} ~~the~~ satisfaction of the needs of consumers.

The distribution of the products.

In the Hungarian economy the so-called marketing functions of the domestic trade ceased to exist, the commerce has had the function to distribute the products manufactured by the industry. There are some advantages of the socialist commerce, mainly in the great reduction of the advertisement costs, but other characteristics imply a worse situation.

In capitalism the commerce is an important link between the producer and the consumer. The commerce supplies the mechanism which equates

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demand and supply, is an important factor in the formation of the price and gives inducement to the producer what to produce. In a collectivist economic system the commerce has only distributive functions. Its task is to distribute the products manufactured in conformity with the plan of the factories. It gives no inducement to the factories, what to produce, the production is to be decided by the planning authorities. It has no role in the formation of the prices, the prices are decided upon by the planning authorities too. It does not equate supply and demand in the sense mentioned above, there is a given supply to be distributed on a "first come first served" basis.

Theoretically there would be constantly a great bulk of merchandises not saleable in the channels of commerce. Yet we must remember our former notion: the communist economy is the economy of shortage. There are always articles demanded by the public but not available. Thus the consumers are purchasing the commodities of the second order too. Furthermore if there are excess stocks in different commodities because the consumers prefer some more valuable substitutes to them, the planning authorities impede the distribution of the commodity of better quality for a time to sale the commodity for which the demand was less. E.g. if there are great stocks of margarine, the distribution of butter is being halted for a time, if there are excess stocks of textiles of a worse quality there is no supply of textiles of a better quality for a time etc.

We might examine briefly the question of private initiative. In capitalism the marketing of the products is greatly enhanced by the interest of the shopkeepers to sale the commodities in the shortest time, thereby increasing the velocity of commerce. In the collectivist system there is no such interest. The employees of the retail-trade

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shops are not working for themselves, they are working for the state. They might seek their own advantages but not the advantages of the state. Thus they are not interested to supply goods in which there is a shortage, they are not interested in the improvement of the distribution process. Hence the satisfaction of the consumers is not maximized.

Another characteristic of the commerce in the collectivist economy is its bureaucratic nature. In a factory there is not great difference (theoretically) between the administration of a state enterprise and of a private enterprise. Practically there is a difference due mainly to the bureaucratic organization of the planning. In the retail trade abstracting from the need of planning there is a considerable difference between the administration of a private business and of a state-owned business. In a private business there is not much administration, the owner has some commitment to lead a ^{some} private form of accounting, nothing else. In the state-owned retail-trade there is a need for ^{control} revision and supervision. For the state nobody is reliable, therefore the state demands a tremendous administration and beside that the ^{work} revision and the supervision of the businesses. The requirements of the administration-work and of the supervising work is so great that according to reliable estimation in Hungary the administrative employees of the state-owned retail-trade businesses represented about 30-40 per cent of the number of employees. Besides the salesmen had some administrative tasks too. The bureaucratisation of the domestic trade naturally decreased the efficiency of trade.

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Foreign trade.The Hungarian foreign trade before World War II.

In the interwar period the development of the Hungarian economy went parallelly with the development of the Hungarian foreign trade. The export consisted mainly in the products of the agriculture and in the products of the developing Hungarian light industries (textiles and light engineering products). The import contained raw materials (iron ore, cotton, metals etc.), ~~and~~ machines and manufactured products. Hungary showed the picture of a developing ~~and~~ semi-agricultural - semi-industrial country ~~and~~ in her foreign trade too. The most important feature of the Hungarian foreign trade was (a thing quite natural in that time) that the foreign trade was based on the main comparative advantages and disadvantages of the production. There were state subsidies for some products, we even might see examples of multiple pricing (in the case of the sugar the price charged at home and abroad was different) but these cases seemed to be rather exceptions than general characteristics of the foreign trade.

Hungary had considerable foreign trade with almost every part of the world. The trade was the greatest with Western Europe, in the period before the second World War the trade with Western Europe represented about two thirds of the total Hungarian foreign trade. The importance of the quality products of the Hungarian agriculture (products of horticulture, fruits, wine etc.) was increasing in a great degree. With the further intensification of the agricultural production the export of these commodities would become a constant source of foreign currency badly needed for the purchase of foreign manufactured products, machines and raw materials.

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The Hungarian foreign trade after World War II.

After the second World War the agreements of Yalta and Potsdam directed Hungary in the Soviet-sphere. This decision showed its impact very soon on the Hungarian foreign trade too. After the war the trade with the Western countries was still considerable. Yet as the communists took over the power, there ^{was} a sharp decrease in the Hungarian trade with the West. In the mean time there was an absolute decrease in the volume of the foreign trade too, because the trade with the Soviet-bloc countries did not increase considerably. In that period there was a policy towards autarky. It seems that the Soviet-Union aimed at the formation of autark units in the satellites. Every satellite country had to develop its heavy industry and generally the production went on the same lines in the different satellite countries. This decrease of the volume of foreign trade had unfavorable consequences for the economies of these countries, and only some years later ^{realized} the Soviet authorities that the Ricardian comparative costs doctrine was very useful for the collectivist economies too. Therefore during the '50-s the ^{has} division of labor increased between the countries of the Soviet orbit. Yet the trade between the countries of the free world declined further on. This decline had ~~economic~~ political and military causes. The political causes were to loosen the connecting links between the communist and the capitalist countries, to ^{shut up} close the communist countries from the West, to decrease the intercourse between East and West, thereby decreasing the "danger" of political and ideological infiltration from the capitalist countries. Furthermore the Soviet authorities wanted to bar the products of the capitalist countries from the communist countries, to hinder the possibility of comparisons, and to

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impede the counterarguments to the communist propaganda about the increasing standard of life in the communist countries and the declining standard of living in the capitalist countries.

The military factors had considerable importance too. The Soviet authorities wanted to prepare themselves for the event of war. They considered the possibility that in the event of war the trade with other countries would disappear or - in the case of the neutral countries - greatly ^{lose} diminish and they intended to hinder the formation of bottlenecks in the ^{event} conditions of war. Thus they aimed a hermetic wall between the communist and the capitalist countries in the trade too.

The last cause of the increase in the foreign trade between the Soviet Union and its satellites was that - as we have seen in Ch. VI - the foreign trade became a means of exploitation by the Soviet Union.

The Soviet policy outlined above caused ^{a considerable} ~~an immense~~ decrease in the Hungarian foreign trade with the Western countries. In 1947 the share of the Western countries in the Hungarian foreign trade was 68 per cent, it declined in a year to 48 per cent, and later as a consequence of the Soviet policy it decreased to 15 per cent in 1954. The year 1954 represents the lowest mark. After this year new circumstances had a favorable influence on the Hungarian trade with the Western countries. The death of Stalin ^{lessened} ~~decreased~~ the rigidity of the Soviet policy, the Soviet authorities perceived that the trade with the capitalist countries had great advantages for the Soviet bloc, because the communist countries might export commodities in which they had comparative advantage and import others where the productivity was greater in the Western countries. Besides the Soviet bloc needed some materials and machines not produced in the Soviet orbit (metals, cotton, ~~mountain~~ machines requiring greater precision etc.) Thus the Soviet Union permitted its satellites to increase the trade with the capi-

*of the total change -
then bring back*

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talist countries, ~~there has been even a tendency to strengthen this~~
~~increase not only for political reasons but also because the economic~~
~~development of the communist countries required the intercourse with~~
~~the capitalist states.~~ As a result of this new policy the Hungarian
foreign trade with the Western countries increased to 23 per cent¹ in
1955. Yet there have been considerable difficulties in the way of
the increased trade-relations. The policies of autarky in the previous
years developed a "high cost-area" in the Soviet-orbit, where the in-
crease of production was bound together with the increase in costs.
In the mean time the technical development in the capitalist countries
decreased the costs of ~~the~~ ^a considerable part of the commodities.
Thus the competitive position of the communist countries has been
aggravated. To avoid this difficulty the communist countries - and
among them Hungary - have sold their products below cost. We shall
see the implications of the pricing of export-goods later.
The new policy increased the Hungarian trade with the overseas
countries too. The figures of export show this change:

Hungarian foreign trade with overseas countries in millions of \$			
	1953	1954	1955
Value of import	12,0	24,3	32,9
Value of export	15,3	21,3	38,7

In spite of the "price-dumping" in the Hungarian export, the worsen-
ing of ~~the~~ ² Hungarian competitive position in the world market due
to the mistaken communist economic policy caused a considerable
passive balance of payment. ^{existence of trade} With the increase ~~all~~ the foreign trade
the passivity of the

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1954 the value of the export (in millions of \$) was 64,3, in the value of import 95,5. In 1955 the export increased to 103,7 million the value of the imports was \$ 154,0 million.

The composition of the Hungarian foreign trade.

The composition of the Hungarian foreign trade shows the following picture :

Hungarian foreign trade in 1955		
	(millions of \$)	
	export	import
agriculture	52,7	39,7
materials	13,7	75,7
ind. products	37,3	39,6
	103,7	154,0

It seems from the figures of the export that there is no considerable decline in the ~~manufacture~~ export of agricultural products. Yet this is not the case. The export of the quality products of the Hungarian agriculture (horticulture, fruits, wines) has greatly declined. The collectivisation had its worst effects in this field. The collective farms were not able to ^{substitute} supply the private initiative and the ^{to supply} careful work required in this field. Furthermore there have been a decrease ~~amount~~ in the export of staple agricultural products (e.g. corn and rye) due to the decrease of productivity (See C. VI.). The decrease in the export of the former-mentioned goods was only partly counterbalanced by the export of poultry and of dairy products which were taking away from the domestic consumption. Besides the figure of agricultural export is a brute figure. The export of the agricultural products amounted in 1955 to \$ 52,7 million, while the import of agricultural products reached \$ 39,7 million. This phenomenon was not due to a greater international division of labor, but the economic policy of the Hungarian governments caused that in the same year the same products were exported and imported too. Hungary

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exported wheat in the fall and imported wheat in the spring, when the shortage in wheat was already perceptible. Generally products of better quality were exported and products of lower quality were imported as in the case of wheat and wine. The following table shows this situation:

	1954		1955	
	export	import	export	import
	m i l l i o n s	m i l l i o n s	m i l l i o n s	m i l l i o n s
wheat	4,6	9,6	4,8	17,4
other cereals	2,9	0,8	1,8	12,7
butter	0,1	1,7	2,9	2,8

In the foreign trade of the materials the ~~shortage~~ lack of the most important materials is perceptible. Hungary exported in 1955 materials in the value of 13,7 million forints, while the import of materials accounted for Ft 75,7 million. Hungary has to import 85 per cent of her iron ore consumption. The corresponding figures concerning other materials are the following: metallurgical coke 80 %, metals (other than aluminium) 100 %, rubber 100 %, cotton 95 %, wool 70 %, raw hides 60-65 %, sawn timber 75 %.

To pay for these products Hungary has to export agricultural products and/or manufactured products. Yet as we have seen above the export of agricultural products is declining. On the other hand the balance of the foreign trade in manufactured products is ^{neither} favorable ^{with}. The communist economic policy provided a hopeless situation for the Hungarian foreign trade, that is very difficult to remedy in ~~the~~ some years.

The pricing of the exports and some repercussions of the export-policy.

In the capitalist countries the foreign trade is based on the comparative advantages of the different countries. This picture might be distorted by tariffs and quantitative trade restrictions, but

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as a general rule it is still valid. The foreign trade is based on the competition between the producers of the different countries. Besides the rates of exchange are not arbitrarily determined but on the basis of the balance of payments relations which at least partly are reflecting the relative cost-structure of the countries concerning the exported and imported goods. The competitive mechanism of the capitalist system works in this direction too improving the export-possibilities of the producers with relatively lower costs, worsening the export-possibilities of the producers with higher costs. Abstracting from the case of monopoly the price charged in the home country and abroad differ only by the amount of transportation costs and by the amount of the eventual tariffs.

In the collectivist economic system there is no guiding principle regarding the exports. In the communist countries the rate of exchange has been arbitrarily determined, it has no connection with the cost-structure. The ^{cost-structure} ~~structures~~ of the communist countries ^{have} ~~has~~ been based theoretically on gold. Yet in fact the value of the currencies has been determined in relation to the rubel. But there were over- and undervaluations inside the Soviet-orbit too. We have seen the economic consequences of the overvaluation of rubel in Ch. VI. The differences in the nominal and in the real value of the currencies ^{is} ~~are~~ still greater in relation to the capitalist countries. E.g. the official parity of the forint in the terms of dollars is 1:12, the purchasing power parity is about 1:20, the parity of the articles to be exported and imported about 1:30. This distortion of the rates of exchange has no effect on the foreign trade if it is measured in dollar, but it impedes the tourism in Hungary, because the Western tourists get less for their ~~same~~ currencies as the purchasing power of the forint would involve it. Yet Hungary would earn badly needed foreign currency if

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^{W-1}
there were no such obstacle.

Abstracting from the arbitrarily determined currency ^{relations}, measuring the price-differences taking into consideration the productivity per man in the different countries, Hungary is still in a bad position regarding the competitiveness of its economy. Yet Hungary has to export for the sake of import raw materials. Thus she applies a multiple price system: the price charged abroad is only a fraction of the price charged at home. ^{Therefore} thus the real cost of the import is much greater than it seems to be. There is no mechanism that would ensure the increase of the exports in such branches of the production where the competitive position of Hungary is the best and to ensure the development of these branches of production. The Hungarian enterprises have no direct contact with the world-market. They are producing what is being planned by the state and a part of their products is exported which have been planned to ^{be} export. Thus they can not change their production in connection with the change of the demand-conditions on the world market. ^{of today} Thus The situation of the Hungarian foreign trade (can be best described stating that Hungary needs imports mainly to develop her heavy industry, to pay for the imports which are aimed to develop an industry without any competitive advantage vs. the foreign countries, she exports everything that is a demand for on the world market without taking into consideration the cost-price relations.

The foreign trade has been greatly hindered by the lack of private interest and private initiative too. The factories have been not interested to produce for export, the government officials carrying out the foreign trade have been not interested to achieve better prices and better terms of trade in a wider sense.

The situation has been aggravated because Hungary has had to export some of her products to the communist countries (e.g. light engineering)

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products) and to import machinery, hides, wool etc. from the Soviet Union or from the satellites on worse terms than those would be obtainable on the world market. Hungary imports coal from Poland but it would be cheaper to import electrical energy from Austria or ~~from~~ Yugoslavia.

The outcome of this catastrophic economic policy of the communist regime is the greatly passive Hungarian foreign trade, and the decrease of foreign trade in 1956 (it was only 89 per cent of the foreign trade in the former year) and the permanent worsening of the competitive position of Hungary regarding the world-market.

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C. Transportation.

During the interwar period there was a considerable improvement in the Hungarian transportation system. New railroads were ^{constructed} built, new roads were built. After the second World War we can not speak about development in the ^{transportation} railroads. Some roads were built but mainly for military reasons, to connect airfields with the neighbouring town etc. In the mean time the state of the roads deteriorated very much, thus we can not speak about improvement in the Hungarian road-system. Similar is the situation with the Hungarian railways. Their locomotive and wagon-park is obsolete, it can not deal properly with the needs of transportation. Therefore there are permanently bottlenecks in the Hungarian transportation-system. The bottle-necks are primarily perceptible during the winter and in the fall. During the winter the difficulties are caused mainly by the low quality of the coal. ~~Generally~~ The heating ^{capacity} ~~capacity~~ of the coal proves to be unsatisfactory in these months. In the fall the increased needs for transportation due to the transportation of the crops aggravates the situation. Besides there are not enough double tracks ~~(+)~~ for the needs of transportation.

After the second World War detailed plans were elaborated to deal with the difficulties in transportation. Yet the money needed for the purposes of investment in the transportation industry were used for the development of the heavy industry. In conformity with the general policy of the economic authorities attempt has been made to use the existing means of transportation as long as possible, without taking care of replacement. This policy will show its impact in the next years when the existing equipment of railroad transportation will wear out and this will cause a much greater shortage in the transportation facilities as it is now.

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There are no reliable data about the yearly costs of replacement. Estimations suggest that ~~the~~ in contrast with the ~~Ft05~~-1,9 billion ~~annual~~ gross investment in the transportation industry the actual need for replacement is yearly about 1,5 billion. Therefore about 0,5-1,0 billion would be the amount of the yearly deterioration not replaced. It is probable that the need for more investment to maintain the existing capacity will cumulatively appear in the next years.

XI. THE INVESTMENT POLICY.

The investment-policy of the Soviet-Union.

In 1918 after about a decade of incertitude the economic policy of the Soviet Union got a firm basis. The authorities had decided about the methods of economic policy concerning the development of the country. The economic policy was based on the development of the heavy industry. In conformity with this the overwhelming parts of the investment ~~were~~^{was} assigned for this purpose. Seeking for the causes of his policy we might emphasize three circumstances:

1. the drive towards autarky
2. the military considerations
3. the natural resources of Russia

The leaders of the Soviet state intended to build up a socialist economy independent from the ~~exist~~ existing capitalist economies of the world. They aimed self-sufficiency in the sense that Russia has to produce everything necessary for the development of the economy without and thus ^{to} avoid her dependance on the capitalist states. The decision had ~~not~~ economic and political grounds as well. ~~The economic grounds might be viewed in the aim of the Soviet policy to become independent from the capitalist states.~~ xxxxxxxx xxxxxxxxxxxxxxxxxxxx

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The economic grounds might be viewed in the effort of the Soviet policy to ensure the independence of the Soviet economy against the eventual crises of capitalism. The political grounds consist on the one hand in the fear of the political consequences of a close economic connection with the capitalist countries (they might exige not only economic but also political concessions) ~~but also~~ on the other hand in the belief that ^{building up} ~~clearing up~~ the Soviet-Union hermetically from the capitalist orbit it might be possible to avoid the ideological impact of capitalism not only ~~through~~ in the strict sense but also through ~~capitalist influences~~ the fashion, the products etc of the capitalist countries.

The military considerations emphasized the development of the heavy industry on the grounds that the growth of this industry is indispensable for the efficient armament of the country. The military considerations also stressed the importance of the autarky in the event of a war, when the possibility of foreign trade would cease.

The natural resources of the Soviet state supplied the basis for the development of the heavy industry, because the Soviet Union has sufficient natural resources - primarily coal, iron ore and oil - for the development of the heavy industry. Thus the prospective costs of the products of this industry were lower than the costs of import.

~~The Soviet Union has relative advantages in~~ According to the theory proposed ~~the Soviet Union~~ e.g. by Galenson and Leibenstein the possibly best method for the development of the economy in an underdeveloped country would be the expansion in ^{those} ~~the~~ industries where the capital/labor ratio is the greatest (that is generally the heavy industry), because the high capital/labor ratio ensures ~~the~~ a higher amount ^{to be saved} ~~prevailing~~ for reinvestment than the investment in the industries with a lower capital/labor ratio. The ~~economic policy~~ investment policy of the Soviet Union.

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viet state seems to be based on similar considerations. In Marxian language the investment policy of the Soviet Union aimed at the achievement of the highest surplus-value to be invested in the further process of economic development.

Furthermore the investments in the heavy industry barred the way to the immediate increase of the standard of living having impeded the growth of the light industry, but theoretically provided the possibility for the later development of the ^{light} heavy industry.

The investment policy in the satellite-countries.

Without aiming to consider the advantages and disadvantages of the Soviet investment-policy for the Soviet-Union itself, we will deal here briefly with the main properties of the investment policy in the satellite countries after World War II.

After the second World War with the beginning of planning in the East-European and Central-European satellite-countries the investment-policy of these countries seems to be the strict imitation of the Soviet investment policy. Based not on economic, ^{but} rather on political and ideological considerations, believing in the "unique road to socialism" these countries began to imitate the Soviet Union in every field of their economic activity, thus in the investment policy too. Besides the Soviet-Union based on the above-mentioned considerations favored the similar development of the satellite countries being certain that the road of development chosen in the Soviet-Union might be the ^{best} ^{way} ~~best~~ for the satellite countries too. Hence the investment policy of these countries aimed also the development of the heavy industry neglecting the light industry and the agriculture.

Taking the above-mentioned decisions the economic considerations were almost entirely neglected. It was not taken into account whether the

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countries in question had the necessary natural resources or not. Some of them had not iron ore, other lacked in coal or in oil, perhaps Poland had only similar endowment in the resources required for the development of the heavy industry as the Soviet Union. The lack of natural resources taking into account the costs of transportation ^{rapidly} caused increasing costs ~~with~~ in the heavy industry with the expansion of the production.

In the language of the Galenson-Leibenstein theory the reinvestment-ratio is not unconditionally higher if the capital/labor ratio ~~is~~ is higher. If the costs in the industry in question are rapidly increasing, the amount employable for ~~the~~ further investment might be ~~less~~ less than in the case of an investment in the light industry with decreasing costs. Thus the capital/labor ratio ~~per se~~ per se is not sufficient basis for the decisions concerning investment policy.

The cost-considerations imply the problem of the comparative advantage. The enforced investment policy based on the imitation of the Soviet Union failed to take into account this question. Instead of developing the industries where the country in question had had comparative advantage the investment policy was decided regardless of the comparative advantages. Thus the competitive position of these countries was impaired. Besides - as we have seen formerly - the comparative advantages were not taken into consideration between the ~~satellite~~ satellite countries either.

Hungary is a ~~typical~~ typical example for the failure of the investment policy in the satellite countries. Hungary imports about 85 per cent of her iron ore, the labor productivity of the Hungarian coal-mining industry is about 33 per cent of the Polish industry (the Hungarian miner's output is 0,6 tons per man day in hard-coal equivalent, that ~~is the~~

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of the Polish miner is 1,8 tons). Besides - as we have seen formerly - Hungary had a favorable competitive position in agriculture and in some light industries, the development of which might lead to the reduction of costs. In other words the social marginal productivity of the investment was lower in the heavy industries than it would be in the light industries and in the agriculture.

3. Changes in the investment policy in Hungary.

The previously reviewed changes in the economic policy appear in the investment policy too. From the beginning of the planning period in Hungary until the Revolution four phases of the investment policy might be distinguished as follows:

a. Until 1953 the investments in the heavy industries were emphasized. In connection with this the investment-expenditures increased from year to year. In plan prices the gross investment was in 1950 9,5, in 1951 13,0, in 1952 16,4 in 1953 17,0 billion forints. The share of the investments in the heavy industry amounted as an average to 94 per cent. ^{regarding total investments in the industry} This percentage regarding the entire investment expenditure was only 42 per cent, but a part of the armament expenditures figured as "miscellaneous" item and in fact increased this percentage with 6-8 per cent more.

b. In the year 1953 the "new economic policy" ^{reduced} decreased the investment expenditures. In 1954 ^{from} the investment amounted to only 11,5 billion forint. The change in the investment policy is conspicuous if we look at the figures of the investment in the heavy industry. In ~~the~~ comparison with ~~the~~ 7,9 billion invested in the year 1953, the corresponding amount was in 1954 only Ft 4,3 billion. The decrease in the total investment expenditure was 42 per cent, in the investments of ~~the~~ the heavy industry slightly more: 46 per cent. ^{the million of the} This small difference

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in the two percentage of decrease is to be explained by the considerable ^{decrease} drop in the investment expenditures comprised under the heading "miscellaneous items" (Ft resp, Ft 6,4 and 4,2 billions). This decrease shows the reduction of the armament expenses. On the other hand there was no increase in the investment expenditures of the light industry and despite the efforts made by the government, the increase is not considerable in the agriculture (resp. Ft 22,2 and 2,5 billions).

b. The third phase began in the year 1954 representing a return to the old position. Yet due to the shortages in almost every industry the investment expenditures decreased ~~excessively~~ in the year 1955 over previous year. Yet the 5 per cent decrease comprises an increase in the investment expenditures for the purposes of the heavy industry and a decrease in the amount invested in the agriculture. In the first half of 1956 there was an absolute increase in the investment activity and an further increase in the investments of the heavy industry. (The data of the 1956 year do not ~~show~~ show this change because the almost complete lack of investment in the last part of the year ¹ resulted in a net negative change of 11 per cent.

*1 caused
by the
Revolution.*

d. The fourth phase of the Hungarian investment policy ^{was} began in ~~1956~~ the middle of 1956 aiming a slightly more balanced investment activity in the industry, agriculture and housing. Yet this new direction could not become perceptible because of the Revolution.

The investment-decisions in Hungary.

The bases of the investment decisions are quite different in a capitalist and in a collectivist economic system. Here we shall try to review some of the most characteristic differences.

The investments in the capitalist system are mainly private investments. Although there has been a considerable growth in the ~~past~~ ^{past} fourth

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investments put forth by the state, the capitalist economy can be still characterized by the preponderance of private investments. The state investments play an auxiliary (but highly important) role ensuring full employment (United States) or serving social purposes (housing-West Germany). What are the bases of the investment decisions in the private investments of the capitalist economy?

The basis is primarily the profitability of the investment, i.e. the value of the future earnings due to the investment discounted by the interest rate ^b is greater than the amount of the original investment. The competition leads permanently to new inventions. Every competitor tries to employ inventions which decrease the costs of production and thereby improve its competitive position and increase its profits. The market serves as checking mechanism also in the case of investments. It reflects the unprofitability of the investments not causing cost-reductions and induce the employment of the investments resulting in cost-decrease. This process ensures the optimal distribution of the resources equalizing the marginal rate of transformation between factor and product in the different activities. (We do not deal here with the interference of the monopolies with this process).

In a collectivist economy the investment-decisions are being made by the state. There is no market mechanism which through the prices would check the productivity of the investments and the equalization of the marginal rates of transformation. Besides in the communist system the political and the military considerations govern also the investment decisions.

Military considerations in the Hungarian investment decisions.

The military considerations in the investments decisions are real

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can well be ascertained in Hungary. The considerable part of the Hungarian investments has served directly or indirectly military purposes. The official data do not show the direct military investments either, because these were generally disguised under ~~the most~~ different headings.

The direct military investments comprise the construction of the airfields (concealed among the investment for transportation purposes), of the factories producing different kinds of weapons (disguised among the investments of the heavy industry), factories producing ^{of} dynamite and similar products (covered under the heading "chemical industries") and the buildings for military purposes (under the heading "government construction"). It is quite impossible to estimate the real amount of the investments aimed directly military purposes. It might reach in the period of the five-years plan 20-30 per cent of the total investments.

Besides the investments serving directly military purposes the importance of the investments serving indirectly the same purposes was very considerable. In this connection we emphasize the forced development of the ^{and} heavy industry, which can not be explained without military reasons. The greatest ~~the~~ individual investment ~~the~~ of the communist regime: the iron and steel plant of Stalinvaras is superfluous from the viewpoint of peaceful production. It represents an excess capacity which is necessary for military purposes only. The ~~max~~ total cost of the plant (comprising cost of the dwellings) might be estimated for Ft 6 billion, about 10 per cent of the ~~the~~ entire gross investment during the first five-years plan. Besides the unit-costs of this plant are approximately by 50-80 per cent ~~much~~ higher than the unit-costs of the old plants due primarily to the high transport^{ation} costs. Similarly military purposes were the principal cause in the

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development of some parts of the Hungarian chemical industry. E.g.

the new plants ~~marking~~ producing nitrogeous fertilizer were ~~be~~ built relatively

(that the transition to the production of nitroglycerine be ~~was~~ easy

and a part of these plants served already initially this purpose.

The costs of the investments serving directly or indirectly military

purposes were increased by the requirements of secrecy, causing in

~~very~~ plus-costs because of the location (Sajobabony) or by developing

the production of the different parts of military instruments in

different places, thereby increasing the transportation-costs.

The productivity of the investments.

As we have seen above in ~~the conditions of~~ capitalism the productivity of the investments is the principal view-point. In the collectivist economies there is no mechanism to check the productivity of the investments. Besides in the communist countries the productivity as point of view ^{being} is neglected for different reasons.

The first reason for the neglect of the productivity considerations is theoretical: the Marxist-Leninist economics does not acknowledge the productivity of capital. This standpoint lead to the sometimes comical conclusions that every economist who tried to measure the productivity of the investments and recommended the employment of productivity considerations as a measuring road for the investment-decisions was considered as "reactionary". We see this phenomenon in the case of the Soviet-discussion about the productivity of the investments and also in Hungary. It is no wonder that the theory and practice of measuring the productivity of investments did not develop. Besides the theoretical reasons the preponderance of the political and military considerations impeded the consideration of the productivi-

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investments there was not ~~any~~ even any gross calculation concerning productivity. The role of the political and military considerations can best be viewed in the case of Stalinvares.~~the~~

The construction of the new iron and steel plant was decided on the basis of political (to imitate the Soviet-Union) and military (the ensure the iron and steel necessary for military purposes) considerations. The plant was initially located in the neighbourhood of the Yugoslav border based on the iron ore to be transported from Yugoslavia and on the coal to be mined and transported from about 30 ^{km} ~~km~~. The rift between the Soviet-Union and Yugoslavia, with the possibility of a war with Yugoslavia moved the place of the plant to the North by 200 km (Although the construction had been begun for a year ^{before} ~~in~~ the former place). Now Hungary could not buy iron ore from Yugoslavia. Later it was understood that the coal mined at the ~~former~~ place formerly mentioned was not suitable for cooking. Thus the iron ore had to be transported from the Soviet-Union, a part of the coal from some Hungarian mines far from the plant and the greater part of the coal-requirement from Poland. It is no wonder that the new plant was much less productive than the old ones.

The costs of the investments.

We have dealt formerly with the price-inflation in the construction industries. ^{In this connection} ~~Similarities~~ we have touched upon the credit system of the investments in Hungary. To recall briefly the investor-firm gets credit from the state to carry out the investment, the cost of the investment ~~did~~ not enter into the future cost-calculation of the production and there is no efficient control regarding the costs of the investment. These circumstances ^{are responsible} ~~hold the responsibility~~ for the cost-formation of the investments.

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According to our previous calculations (See Ch.IX.) the amount paid for construction ^{work} ~~ex~~ has exceeded by about 30-32 per cent the actual performance measured in unchanged prices. Because ~~the~~ construction represented the greatest part of the investments-costs and there has been an increase in the price of the machines to be installed too, we might estimate the excess of the investment costs over actual performance measured on unchanged prices in 25-23 per cent. Hence the increase of the investments during the first five years plan is in a considerable ~~max~~ degree due to these circumstances and deflating the nominal value of investment in the year 1954, the real value of the investment in this year was less than in the first year of the five years-plan.

The aim of the investment-firms was

a, to finish the investment for the date determined by the planning authorities

b, to fulfill the financial plan of the investment.

The endeavour to achieve both aims produced the increase of the costs of investment. The generally short periods available for the termination of the investment projects greatly increased the costs. On the other hand the investment firms had to fulfill their financial plans - if also the technical plan was not fulfilled. Because of these circumstances generally the financial plan was fulfilled, when the technical fulfillment was only 70 per cent. According to reliable estimates the ^{actual} costs of the different investment-projects were generally by 30-35 per cent higher than the planned costs.

As in so many cases we confront also here the problem of interest. Nobody had interest to decrease the costs of investment, the construction enterprises had interest to increase the prices and to get paid for ^{not performed work} ~~actual performances~~; the investment firm was interested in the ful-

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fillment of the financial plan and in the termination of the investment project on the ~~date~~ due date. The costs of investment have increased permanently.

Some problems concerning the investments in Hungary.

We shall review here some of the special problems of the investments in Hungary which show the mistakes in the investment decisions and the deficiency of planning. We shall deal with the deficiency of planning in a narrower sense, the excess-costs arising from the ~~extreme~~ wrong sequence of the different phases of investment, the difficulties involved in the use of Soviet projects, the organizational mistakes, the consequences of the enforced short periods to finish the investments projects.

a, Besides the unsatisfactory planning in a wider sense there was no satisfactory planning ~~either~~ in the narrow, technical sense either. It is true that these deficiencies were mainly due to the mistakes made in the general decisions of the planning authorities. The frequent changes in the investment decisions caused that the investor and construction enterprises did not know what will be built in the next period. This factor played a part in the shortage of the different materials and demonstrates itself in the deficiency of the plans and designs of construction. In the case of the most important investments the plans and designs were made parallelly with the construction causing frequent excess-costs due to the changes in the technical plans. That was the case for instance with the construction of the electricity plant at Pecs, the uranium-mines at Kovageszollos etc. The lack of the technical plans and designs impeded the economical organization of the construction and increased the costs in many different ways.

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b, The military and the political considerations required that the investments should be carried out in a relatively short time. In consequence ~~xxx~~ ^{of} this the normal sequence of the different phases of investment was lacking. It is quite conceivable that constructing a new plant first the roads and waterworks ~~has~~ ^{are} to be built, later the dwellings for the construction-workers and only after ^{that} the plant itself. In the history of the Hungarian "great" investments during the planning period there was no time to construct ^{the} taking into account this requirement. The construction of the ^{roads, dwellings, factory buildings etc.} ~~phases mentioned above~~ was carried out parallelly or sometimes the roads and the other underground workings, furthermore the dwellings were constructed after the plant. This sequence of the construction caused considerable excess-costs not only during the period of construction (worse transportation-possibilities, water and electricity problems, the ~~transport~~ daily transportation of the workers from great distances etc.) but also later because the roads were damaged by the construction of the underground-workings ~~decreased~~. The excess-costs arising from the above-mentioned circumstances were considerable in Stalinvaros (transportation of workers, damage to roads by the construction of the ^{late} underground workings etc.) and in the uranium-mines where uranium-ore was mined in the time when there were no roads to the mines.

c, The adaptation of the Soviet projects to the special Hungarian circumstances caused frequently difficulties. In some of the investments Hungary had to apply Soviet projects. A part of these projects was deficient, on the other hand many ~~xxx~~ difficulties arised and mistakes were made in the adaptation of these plans designed initially for different circumstances. The excess costs due to these circumstances were considerable in Stalinvaros where ^{the} ~~the~~ buildings were to be rebuilt because the Soviet plans were deficient or there

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were difficulties with the adaptation.

d. The organizational mistakes in a wider sense comprise the lack of coordination between the different projects. A good example is in the case of Tiszapalkonya. Here the canal between Tiszapalkonya and the coal-mine has ~~not~~ been not ~~built~~ constructed because there was not enough "credit", although in the mean time the electricity plan of Tiszapalkonya was finished. Thus the coal could not be transported on waterways as planned but it had to be transported by train.

e. The enforced "fulfilment" of the ~~summit~~ date of termination - besides of the excess-costs mentioned before - caused many other inconveniences too. In the case of Stalinvaros for instance the ~~smelting~~ of the casting of the first iron was accomplished on the date planned (11.7.1951 - the ~~first~~ memorial date of the Soviet Revolution) but after that the furnaces had to be repaired for a year. Similar was the situation in the of the chemical works of Kazincbarcika too. The production was begun on the date planned, but one day of production was followed by many months of repair-work, and the normal production was begun only almost after a year.

Mechanization and automatization.

In the period after the World War II. there was a considerable development in the mechanization and automatization of the industry in the Western countries. In spite of the huge amounts spent for investment purposes there ~~has~~ been no considerable improvement in Hungary. We try to summarize briefly the causes of this phenomenon:

There was no scientific intercourse with the Western countries. Thus the application of the Western inventions was greatly impeded. Hungary got the most obsolete parts of the Soviet machinery, because the Soviet Union used the up-to-date machinery in her own country and sold

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t e obsolete ^{machines} ~~parts of~~ it to the satellites. These machines were purchased on a compulsory basis. In the most cases there was a possibility to purchase more efficient machines ~~is~~ from the West, but the Soviet ~~policy~~ ^{policy} did not ~~let~~ ^{permit} it..

The mechanization was endangered by the excessive use of the existing machines. Furthermore there was no initiative to increase the degree of mechanization. Lacking the compelling force of the competitive market, the managers were not induced to apply new, more efficient machinery.

XII. P R I C E S A N D F I N A N C I A L P O L I C Y.

Pricing in a competitive system.

In a competitive system the individual producers have exerts an imperceptible influence on the prices. Prices and the quantities sold on the market are determined by supply and demand. Thus through the price-mechanism the forces of the market influence production too. The highest producers are eliminated, there is a constant tendency to increase profits via inventions. The competitive mechanism ensures the optimum distribution of the resources.

In fact there is no perfect neither pure competition in the most industry. The situation is better characterized by the concept of monopolistic competition, where the differentiation of the products and the role of advertising is an important characteristic. Yet also in the conditions of monopolistic competition the pressure of the competitive forces is dominant and the price mechanism works, although in a different way than in perfect or pure competition.

In the conditions of oligopoly if there is no market sharing or pooling the demand for the goods and the supply of the other producers

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influence the price of the oligopolist.

The cases of pure monopoly are not frequent. The influence of the production of substitutes are in the most cases perceptible. Besides fear of government control, quasi-market pressure etc still influence the price-formation of the monopolist.

In spite of the distortions of the market the market forces are dominant in present-day capitalism. The determination of the prices, the elimination of the high-cost producers, the equalization of the rates of transformation between factor and product is prevailing in the capitalist system.

Pricing in a collectivist system.

As an accounting identity supply and demand are equal in a collectivist economy too. Yet this equality is not brought about by the forces of the market, the price is not what it is, because the demand and supply propel the price to a position where demand and supply be equal. The price in the collectivist system is determined by the planning authorities, and authoritative decisions determine the supply too. Thus demand has to adjust itself to supply and price ^{visually} preliminary determined, although theoretically it might have some influence on the supply or even on the price of the ^{product} supply-period.

Prices are based on costs, on historical average costs with a mark-up. The magnitude of the mark-up is different according to the needs of the state. In the communist economies this mark-up (generally in the form of turnover-taxes) is the principal income of the state. The need for a considerable state-income is permanent in a communist economy because of the investment, military, administrative and social-cultural expenses. The mark-up is different for the various products, generally the state intends to influence demand through the

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indirect taxes to avoid the excess of demand over the existing or intended supply. Because the actual demand might greatly differ from the expected demand the shortages are frequent and the rigidity of planning impedes the abolition of the shortages.

The prices under the conditions of a ~~monopolistic~~ collectivist system have a tendency to be rigid. There is no elimination of the high-cost producers, no inducement to inventions. The prices even have an inflationary tendency for causes explained before and in the subsequent part of this chapter. The prices cease to be the motoring forces of production and development, they have a passive role only through the decisions of the planning authorities.

Pricing in Hungary in the reconstruction period.

During the reconstruction period there was no considerable change in comparison with pricing before the World War II. Although the state controlled the formation of prices the supervision of the price-calculations was made on the basis of the pre-war calculation schemes. This showed a certain rigidity because the changed conditions were not taken into consideration if there was an improvement. ⁹ At the capitalist enforced the consideration of the changed circumstances if these were impaired. This method of pricing caused in many cases windfall profits, yet it was favorable for the development of the economy, because the profits were mainly invested in business and thus helped the development of the economy.

This method of pricing was prevalent ^{for a time} partly after the socialization of the factories, ^{to} only the five-year plan brought a change in it.

Pricing in the planning period.

Pricing in the planning period has been based on two different

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forms of prices: plan-prices and current prices.

a. plan-prices were computed for every planning period (generally five years). Theoretically the plan prices are unchanged prices and their function is to measure the fulfillment of the plan and the change in production in time on unchanged measurement-units.

b. current prices are to measure the profitability of the enterprises. They are changing if the prices of the inputs are changing. The sale and purchase of the commodities takes place on current prices.

The plan-prices summary.

In different parts of this essay we have seen some examples about the change in the "unchanged" plan-prices. Here we shall summarize our understanding about the plan-prices.

Theoretically the plan-prices are unchanged. Yet the practice of the communist countries show that in fact there are changes in the plan-prices too. These changes are caused by different circumstances:

a. the plan-prices of every new product ^{is} to be determined on the basis of current costs. That has been the practice of the Soviet-Union and it has been imitated in Hungary too. Because of the slight but permanent inflation-process the current costs are higher than the costs in the time of the determination of plan-prices, there is a constant increase in the niveau of the plan-prices too. This increase causes a cumulatively growing overestimation of the production data from year to year.

b. The concept of the new product comprises also unimportant changes in the technology and the material-contents. Therefore through these changes the enterprises are endeavoring to change the plan-prices thereby increasing the production-record and the premium of the management.

of the products

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c. There are group-prices for many products comprising products with different prices. In these cases the most profitable products are being produced, these products the cost of which is the less. There is a permanent change in the share of the production of different products in the group towards the increase of the share of lower-cost products. Therefore the initial percentage distribution of the products taken consideration in the determination of the group-price is no more unimprovalent.

d. In different industries the ^{degree of} inflation of ⁱⁿ the plan-prices differ greatly. According to our estimation the increase in the construction-prices was about 22-23 per cent in the period of the first five-years plan. It is conceivable that it was less in other industries.

The determination of the prices

There have been two sorts of ~~unimprovalent~~ products regarding the determination of prices. The price of the most important products ^{are} ~~was~~ to be determined by the Planning Board, the ^{prices of the over-9} ~~smallest part of the prices~~ ^{are} ~~was~~ to be determined by the supervising ministries.

^{Also} Although in the case of the determination of prices by the Planning Board there is a possibility to an upward bias, ~~unimprovalent~~ in these cases the influence of the individual enterprises is less, the prices are being determined for products produced generally by many enterprises based on historical average costs.

In the case of the multitude of products the new prices are calculated by the enterprises, controlled and approved by the supervising ministry. As we have seen in Ch. VIII, the individual calculation of the new prices makes possible the ascribe costs to the new products which are not related to the product or to ascribe them in a greater degree than it is really connected with the product.

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The interest of the enterprises and of the supervising ministries is common. Higher price means higher production and higher profit for the enterprise - hence premium to the management, and engineers and technicians, yet it means also a higher production and better results for the ministry. Yet in the case if the products ^{or the inputs for} ~~to be consumed~~ by an other enterprise of the ministry, the price control is generally stronger.

We might say that the tendency "to live and let live" (a "new" form of the laissez-faire, laissez-passer in the conditions of a collectivist system) is valid. There is interest to decrease the prices, there is no interest to hinder these increase, therefore the prices are being increased.

The prices of the producer-goods.

The prices of the producer-goods are based on historical average costs, with or without mark-up -s. The mark-up-s are determined on the basis of desirability. If the production-good is important from the view-point of the industry purchasing it and influences the development of the economy, the mark-up might disappear. The situation is quite different in the case of purchases by individual producers (peasants, handicraft-industry). Here the state employs different mark-up-s for ^{purchasers} different purchasers. It charges more for the individual producer, less for the state-enterprise and even for the collective-farm. This policy is also designed to assist the state enterprises and the collective farms.

Looking at the problem from the side of the purchaser state enterprise the gross cost of the greatest part of producers' goods do not enter into the production costs. Only a part of the agricultural equipment ^P goods enter into it. Some and some unimportant parts of the producers

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ally the producers' goods are being ~~guaranteed~~ financed by investment credit. The investment credit is being allotted to the enterprises on the basis of their alleged needs. Therefore there is a constant "fight" for the investment-credits. From the view-point of the enterprises it is gratuitous and thus the ~~enterprises~~ endeavor to get investment credits even if there is no change in the costs. There are no reliable measures to control the needs for the investment. We might state ^{an} inherent tendency of every enterprise to expand (partly caused by prestige-considerations from the side of the management) and this expansion can even cause ~~unwarranted~~ increasing costs.

There is no interest to be charged on the amounts allotted for investment purposes. After the investment has been finished, it enters into the accounts of the enterprise as asset and as liability. A small percentage of depreciation is charged, but only a part of it has to be paid to the state, about half of it remains in the enterprise for reparation purposes.

There is no sale of producer-goods between the state-enterprises. If one enterprise gives up producers' goods to another, there is no charge only an accounting process. Assets and liabilities decrease with the same amount in the accounts of the former and increase in the accounts of the latter enterprise. Therefore no interest to sell the superfluous production goods. Similarly there is no interest to care ^{for} of them, hence ^{the frequent} deterioration of the equipment. Some enterprises are used to pile up a great quantity of producers' goods for "security"-purposes, even if they do not use them. ~~Thus~~ At the same time the same machines ^{could} might have been used in an other enterprise. This fact impedes also the optimum distribution of the resources.

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The prices of the consumers' goods.

The prices of the consumers' goods are based generally on historical average costs ~~and~~ which is increased by a mark-up. The mark-up for the consumers' goods is much more important than for the producers' goods. This mark-up is the chief source of income of the state and through the mark-up the state influences demand.

In the communist countries generally the direct taxes are of no ^{considerable} importance. The indirect taxes (generally turnover-taxes) provide the principal source of income. The magnitude of the indirect taxes is difficult to ascertain, because turnover-taxes are ^{charged} ~~erected~~ at the different levels of production and distribution (on materials, semi-manufactured goods, manufactured goods, and in the different phases of distribution) the indirect tax might be viewed as a regressive tax because it is principally charged on mass-products and there is no considerable indirect-tax on services, travel expenses etc. Thus the tax is related to commodities which represent a greater part of the expenses of lower-income groups.

Two
 An example for the importance of the turnover-tax in the case of the life-necessities: The price paid to the agricultural producer for 1 q of wheat (1 q is approximately equal to 2,2 cwt) is Ft 80, the price paid by the consumer for 1 q of bread is Ft 360. We do not know the ^{production costs of flour etc} exact ~~sum~~ ^{amount} of the distribution-costs, yet the overwhelming part of the difference goes to the state. The production-cost of the sugar is about Ft 300-400/q, its price for the consumer is Ft 1150/q.

The important examples show not only the importance of the turnover tax as ^a source of revenue but also its importance in the formation of demand, also the demand-schedules are not known.

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The inflation-process.

There is no reliable estimate concerning the ^{magnitude of the} inflation process of the last ten years in Hungary. The ^{price} indexes of the government are falsified not to show the increase of the standard of living.

The increase of the ~~maximum~~ prices of consumers' goods ~~has~~ has been caused by different circumstances. First of all the state has to increase the prices to finance armament and the great amounts spent on investment and bureaucracy. It is directed by the government based on psychology because the workers are generally less sensitive on price increases than on wage reductions (Although we can not state this any more in the Western capitalist countries, where the cost of living index is strictly watched by the workers.) The communist government in Hungary has tried to disguise the decrease in the real wages through the slow and partial, but permanent ^{price-increases} ~~changes of the prices~~. Changes are in connection with the deficiency of supply too.

The usual method of price-increase is through the deterioration of quality. ~~For~~ For many products initially one price was formed, later different price for different qualities on the basis that the new, higher price corresponds to higher quality. Later the product with the lower price was not produced any more, and the quality of the product with the higher price deteriorated till the initial situation was reached but on a higher price level. Now the process could go on with the method described above. That with the case e.g. with the price of the bread and finally it increased from Ft 2,90/kg (1 kg is approximated by 2 1/2 lb.) in 1946 to Ft 3,60/kg in 1954. The case was similar with flour, butter and other foods. Yet the easiest way to employ this method was in connection with the ^{textiles} ~~various~~, leather ^{ways etc.} ~~materials~~ in a great degree. The price-increase for the ^{various} ~~different~~ articles differs in a great degree.

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has.

The prices of the bread increased by 300 per cent, that of the eggs by 250 per cent, that of the sugar by 100 per cent. We might estimate the increase in the food prices for about 200-250 per cent.

The increase in the price of clothings has been slightly more: about 250-300 per cent.

There is no significant increase in the transportation fares. The great increase in the railway-rates has been partly counterbalanced by a 10 per cent decrease in the tramway-rates.

The rent of the dwellings has increased only by about 20-30 per cent yet the amount of the sublets has increased approximately by 100 per cent.

We might estimate the increase in the cost of living for 200-250 per cent, taken into consideration that the rent accounts for only about 10 per cent of the household expenditure.

The bank-system.

The Hungarian bank-system is highly simplified. There are only four banks: the National Bank, the Investment Bank, the Bank for Foreign Trade and the Deposit Bureau. The different banks have different functions.

The National Bank issues money, operates the accounts of the enterprises, gives credit to the enterprises.

Every enterprise has account with one bank only, that is the National Bank. Through the one-account system the National Bank controls the receipts and the expenses of the enterprises and their financial position. Detailed plans are to be prepared by the enterprises about the planned expenses of the next period. These plans are being reviewed

by the supervising ministry and by the National Bank. The plans

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comprise such detailed items as e.g. expenses ^{for} travel, ^{for} stationary etc. The National Bank controls the realization of the expense plan. The enterprise can not exceed ^{surpass the expense planned} the plan for the different items. The controlling function of the National Bank is only formal, because it controls the relation between the planned and the actual data and does not permit the enterprise to surpass the limit. Yet there is no control concerning the feasibility and suitability of the expenses. The control of the National Bank through the one-account system is rather a bureaucratic institution than a useful activity.

The Investment Banks finances the investments ^{and} has to control the performance of the investments too. This control is rarely effective because the Bank has no experts in sufficient number. Besides both the investor firms and the construction enterprises oppose the bank-control, because the control of the prices and of the quantities performed is against their interests.

The Bank for Foreign Trade deals with the financing and of the foreign trade and operates the accounts of the foreign trade companies.

The Deposit Bureau operates the savings of the population.

The financing of the enterprises.

We distinguish between long-term and short-term financing. The long-term financing of the enterprises is ensured by the investment credits (See. Ch. 11.), for the purposes of short-term financing serve the revolving fund and the short-term credits.

The revolving-fund is allotted to the enterprises in conformity with their need for liquidity. There is no interest on the revolving fund. It is conspicuous that every enterprise endeavors to get an increase in the amount of the revolving fund to improve its liquidity-position. The revolving fund is being allotted yearly - in the case of some

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industries there are quarterly variations too - and although theoretically it is to be allotted through a system based on measurable factors, it is generally the subject of bargain between the enterprises and the supervising ministries.

If the amount of the revolving fund is not sufficient ~~xxxxxxx~~ to ensure the liquidity of the enterprises, they might get short term credits from the National Bank. The short-term credits are allotted for seasonal purposes or for the financing of temporary large stocks. If the liquidity-position of the enterprise is permanently unsatisfactory the bank does not give more credit for the enterprise, it can not discharge its obligations and enters into the so-called accreditive system.

In the accreditive system the enterprise can not discharge obligations from its account, it gets accreditive credits for this purpose. The accreditive credits are controlled by the supervising ministry. Thus the ministry controls the purchases made by the enterprise before the purchase could be realized. This control is generally only formal because the ministry has no possibility to control the necessity of the purchase and in the most cases it grants automatically the accreditive-credit approving the purchase. Yet the time necessary for this approval impedes the enterprise in the rapid performance of the purchases. Therefore the selling enterprises favor those firms which are not in accreditive, and thus can discharge their obligations in a shorter time. Taking into consideration the almost permanent shortage in the different materials the enterprises in the accreditive-system often can not get in time the necessary materials which might hinder the production. On the other hand the accreditive system has a certain cumulative effect. Increasing the time necessary to discharge the obligations, in-

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reduces the liquidity of the sellers. According to an investigation by the Hungarian National Bank the fact that some great enterprises were in arrears deteriorated the liquidity position of other enterprises in such a degree that these became also members of the arrears system.

The above-mentioned examples show that the rigidity and the formal character of the control is characteristic for the Hungarian banking system too.

XIII. THE NATIONAL INCOME AND THE STANDARD OF LIVING.

The reliability of the national income measurements.

The concept of national income in the course of the Hungarian planning is the same as used in the Soviet-Union. Based on the Marxian theory it is estimated ~~with~~ from the side of the production (objective method). ~~Thus~~ The national income of one period is measured by the value added in the material spheres of production. ^{or up to} Yet the material spheres of production is used in a larger sense comprising agriculture, industry, transport and commerce.

The problem of the reliability of the forint figures has been examined in different chapters. We have seen that there are different types of upward bias partly ~~and~~ deliberate from the side of the planning authorities partly deliberate.

From the side of the planning authorities the permanent effort of the enterprises to increase the prices might be viewed as an underliberate upward bias. On the other hand the "cosmetics" of the figures a characteristic of the communist economies to show their alleged performances is deliberate from the side of the planning authorities.

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Yet there are deliberate elements in the inflation-process too, because the communist authorities intend to disguise the deterioration of the standard of living through the price-increases.

The measurement of the national income from the production side shows a considerable increase in the share of the industry.

National income by origing (1949 prices)		
	1949	1954
Agriculture	7,8	8,2
Mining and manufacturing	17,5	33,7
Building and construction	1,5	3,1
Other branches of material production	11,2	12,5
	38,0	57,5

Yet these figures are highly sophisticated. The large figure of the production industrial production covers different factors. Not only the price-increases caused a considerable nominal increase but the change in the structure of the Hungarian economy, the employment of industries showing gross figures and the increase in the turnover-taxes too.

In 1954 the production of the former handicraft industry and of the food-processing formerly carried out on the farms was counted as industrial production, although in 1949 it was not taken into account under the same heading. As a matter of fact the production of the handicraft industry (in the other branches of material production) was not sufficiently measured and only a part of it was taken into consideration measuring the national income itself. Furthermore the food-processing on the farms was not measured in the national income of the agriculture. Thus the change in the structure of the economy

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cause larger figures in the industrial production.

We have seen formerly the problem of the indexes of production. In Hungary the Laspyres-index has been used taking into account the gross figures. Thus the index do not reveal changes in the net output. The managers' task has been to maximize gross output (selling semi-finished goods and buying semi-finished goods. Furthermore there was a tendency to split up the enterprises which increased the gross figures too. The increase of the turnover-taxes increased the nominal national income via the prices of new products.

Although it is impossible to estimate the increase of the figures due to these factors it is conceivable that their role has been considerable in the increased figures.

There are no reliable estimates from the side of the expenditures. Yet the increase in the investments, military expenditure and administrative expenses had to decrease the share of consumption. The measurement is made more difficult by the fact that military expenditures figure as consumption, investment and government expenditures as well. According to some unofficial estimates the share of consumption might decrease from the prewar 80 per cent to about ⁵⁰⁻⁵⁵ 55 per cent, but we have no sufficient basis to control these estimates. There is a difficulty with the turnover-taxes. The difficulty consists not only in the changes of turnover-taxes in time, but the charge of these taxes on the different levels of production and distribution. There are no estimates about national income figures without indirect taxes (national income in the Western sense), hence we can not estimate the role of the turnover-taxes in the inflation of the national income data.

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The situation is similar concerning the distribution of the national income (wages, profits etc.).

The goals of the plans and their impact on the standard of living.

The goals of the plans serving the development of the heavy industry and directly or indirectly military purposes could not achieve the increase of the standard of living. With relatively small investments in the agriculture and the light industry considerable increase of the standard of living would be achieved, yet the investments were made for the former mentioned purposes. The greatest part of these investments was unproductive in the sense that it resulted in higher costs. The unproductivity of the investments is showed by the official figures too. Although the official figures reveal 60 per cent increase in the capital stock, the increase of the labor productivity is said to be increased ^{only} by 15 per cent.

The dwelling problem.

In connection with the standard of living we must emphasize the dwelling problem. Because of the huge investments in the heavy industry and for military purposes the construction of new dwellings was not sufficient. In the last years the following number of dwellings has been constructed:

1955	32,000
1956	12,000
1957	40,000 (planned)

In 1955 the number of the constructed dwellings was only 0,32 % of the population, ^{also} the yearly increase of the population is about 0,5-0,6 per cent and the dwelling problem has been ~~now~~ considerable in the last years. We might compare these data e.g. with the figures

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of France. It is understated that the construction of the new dwellings in France does not reach the construction figures of the most Western European countries. In France in the year 1956 240,000 dwellings were constructed, ^{amounting to} representing 0,6 per cent of the population.

The quality of the products.

In connection with the problem of the standard of living we must mention the problem of the quality of product. We have seen formerly that the enterprises were interested in the deterioration of the quality of products. Similar was the case with the government itself. The ~~deterioration~~ deterioration of the quality represented another method of the decrease in the standard living. Instead of increasing the prices in many cases the planning authorities deteriorated the quality of the products. That was the case concerning some kinds of food (e.g. grease, milk products) but this method has been principally used in the textile and leather-ware production.

The deterioration of the quality was acknowledged by the government itself. E.g. The official organ of the communist party, the Szabad Nép wrote the following in June, 19. 1956: "The quality of a number of consumer goods deteriorated owing to an exaggerated drive for quantitative results. As in these circumstances new purchases became more frequently necessary, because of the lower quality of the commodities, real wages were correspondingly reduced." It is understandable that the deterioration of quality had to be considerable, if the communist government had to admit it.

The statistics of the standard of living.

There is no reliable statistics concerning the ~~immense~~ standard of living in Hungary. Different estimates reveal a 10-15 per cent

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decrease in the real wages in comparison with the pre-war situation which would be partly counterbalanced by the increase of employment. ^{not} Not these estimations were based on sufficient data, thus their reliability is also questionable, also the estimated decrease in the real wages might be near to the ^{reality} truth.

Abstracting from the change of the standard of living in time and measuring the living conditions at a certain date we might use the figures of the United Nations Economic Commission for Europe. The estimates were based on a calculation made in Poland concerning the monthly need of the different feedstuffs per consumption-unit. The "feed-basket" comprises different sorts of food having in total ^{containing} 2400 calories and 100-100 gramm of protein and food. The contents of the feed-basket is:

rye bread	kg.	16.-
wheat bread	"	3.-
wheat flour	"	1.-
pork meat	"	0.5
beef	"	0.5
eggs	number	9
lard	kg	0.75
butter	"	0.75
milk	l.	25
potatoes	kg	25.-
sugar	"	3.-
vegetables		10 % of the total

The price of the feed basket was in Hungary in the year 1956 250 Ft. 353. According to official data the monthly net earnings sum in the industry were Ft 1155 (Statistical Rep. June 19, 1956). Therefore it was possible to buy 3.2 feed baskets ^{with} the monthly net earnings. The situation is still worse if we take into consideration the expenditures necessary for the purchase of clothing and other expenses. Charging 30 per cent of the price of the feed basket for clothing-expenditures and further 20 per cent for various expenditures, we get a sum of Ft 350. Therefore the average net monthly earnings were

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^{not} more sufficient for the needs of the children, Therefore ~~it was not~~
~~enough~~ if the earnings of one person were not sufficient for the family. This circumstance induced the women to seek for work to complete the earnings of the husband.

Without attempting to make numerical estimates we might conclude that principally the increase of the workers caused an increase in the national income in comparison with the pre-war situation, but the armament expenses, the cost of the immense bureaucracy and the impro-
ductive investments decreased the share of consumption and decreased the standard of living too,

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XIV. THE PRESENT SITUATION.

(THE ECONOMIC CONSEQUENCES OF THE REVOLUTION.)

The effects of the Revolution on the Hungarian economy.

The relatively short period of the Hungarian Revolution has considerable aftermath concerning the Hungarian economic situation. As we have seen above the failure of the communist economic planning in Hungary was one of the basic causes of the Hungarian Revolution, now we have to summarize the economic consequences of it. In this connection one has to stress that dealing with the economic effects of the Revolution and thus with the present economic situation we aim not only at the simple description of these effects, but also to show that the Hungarian Revolution brought to the surface the hidden inconsistencies of the economy, which were only partly known till that time. The facts that have serious consequences in connection with the Revolution might be summarized as follows:

1. The stand-still during the fight.
2. The general strike.
3. The neglect of the maintenance work.
4. The continued resistance to the Kadar-regime.
5. The demoralization of the workers.
6. The loss of the 200,000 refugees.
7. The non-fulfilment of the foreign-trade obligation.

IV. THE PRESENT SITUATION.

(THE ECONOMIC CONSEQUENCES OF THE REVOLUTION.)

The effects of the Revolution on the Hungarian economy.

The relatively short period of the Hungarian Revolution has given rise to a number of questions concerning the Hungarian economic situation. To have open about the collapse of the socialist system in the past 20 years was one of the basic causes of the Hungarian Revolution, as we have to recognize the economic consequences of 1956. It is clear that we have to stress that dealing with the economic effects of the Revolution and those with the present economic situation ^{we can} not ^{also to show the} emphasize the effects of these effects, but ^{the Hungarian Revolution} the impact of the revolution on the economy. ^{which} ^{that we} ^{re} ^{only} ^{partly} ^{known} ^{will} ^{then} ^{then}.

The Party Committee Chairman's statement in connection with the Revolution might be summarized as follows:

1. The present situation during the fight.

2. The present situation.

3. The support of the revolutionary war.

4. The economic situation in the socialist regime.

5. The economic situation in the present.

6. The economic situation in the future.

7. The economic situation in the socialist regime.

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1. The standstill during the fight.

During the approximately three weeks of the fight (10.23.56-11.13.56) - except the agriculture and a few ^{industrial} enterprises - there was no work in the country. Before the second intervention of the Russian army the most factories ~~started~~ to work but this lasted only for two or three days and the production was not considerable. The functioning enterprises of the industry were the following: the food-supplying industry and commerce, the water electricity and gas-supplying factories, the glass-factories and some enterprises of smaller size in the country. Generally one might estimate the production of the functioning factories as about 15 per cent of the normal production.

There was no considerable disturbance in the work of the agriculture, yet this was not the time of the major agricultural work.

2. The general strike.

After the cease of the fight the Hungarian workers tried to continue their resistance to the communist regime by their ultimate weapon: the general strike. The period of the general strike lasted nearly for five weeks (11.14.56-12.15.56). The general strike caused a further standstill to the Hungarian economy. In the first period of the general strike the standstill was almost complete (except the industries mentioned formerly in connection with the standstill during the fight). Only in the last week of the strike increased the number of the workers returning to the factories. Nevertheless a great part of the workers continued the strike inside the factories and the productivity of those working did not reach ~~the~~ 50 per cent of the normal level.

Taking into consideration the facts listed above we might estimate the production of this period ~~was~~ ^{as} 20 per cent of the former level.

3. The negligence of the maintenance-work in different industries.

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In some basic industries the maintenance-work was neglected during the period of the Revolution and that of the general strike. This phenomenon caused serious damages to primarily to the mining industry and to the metallurgy. Neglecting some work in the value of thousands of forints, the damages caused thereby amounted to several million forints.

In the mining industry the consequence of the negligence of maintenance-work was the destruction of many pits, while in the metallurgy many furnaces froze in because of the standstill.

These phenomena had twofold consequences for the Hungarian economy:

a. The production of the neglected pits and furnaces will be wanting for a time.

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b. the damages have to be repaired that take not only time, but the repair costs represent excess-costs.

The continued resistance to the Kadar-regime.

After ending the general strike the Hungarian workers continued the fight against the ~~lasted~~ communist regime with other means. We might speak about the passive resistance of the people that is taking different forms. A part of the workers did not return to the factories, they rather chose agricultural work. The remaining workers do work with less efficiency. The communist Hungarian newspapers admitted some cases when the production of the factory barely covered the amount paid in the form of wages. Besides in some cases there are sabotage in the factories that also impede the increase of the production.

It goes without saying that the passive resistance has its natural limits. The Hungarian workers ended the general strike because they had to live, similarly they will avoid those forms of the passive resistance that will reduce their ^{earnings} ~~low level of~~ wages. On the other hand they are trying ~~unsuccessfully~~ to find such

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forms of the passive resistance that are causing damages to the communist regime without being disadvantageous for the workers themselves. The consequences of the above-mentioned factors might be decreasing, nevertheless they constitute a considerable loss ⁱⁿ for the first year following the Revolution.

5 The demoralization of the workers.

The psychological factor have their effect also here. Although in the latest years before the Revolution the workers were not at all content with their situation, this fact had no important bearing on their productivity. The accord-wage system, the permanent propaganda, the fight for a better standard of life the power of the different communist organizations pressed the workers to produce with their utmost efforts. After the defeat of the Revolution the greatest part of the Hungarian workers does not see much hope for the future. The failure of the Revolution, the feeling of servitude after a few days of liberty, the hate of the communist regime reduces the efficiency of their work. This reaction is strengthened by the weakening of the communist organizations.

6 The loss of the 200,000 refugees.

The loss of the approximately 200,000 refugees does much more harm to the Hungarian economy than it ~~can~~ could be involved by the number of the refugees only. With a few exceptions the 200,000 refugees represent the most productive age-category, not only speaking in the terms of physical productivity but also taking into consideration the intellectual productivity. ^{Among} the refugees ~~many~~ having left the country the number of the young engineers ~~many~~ and that of the University students is particularly considerable. A valuable part of the technical intellectuals has left the country. The harm done by the loss of the refugees can not be repaired in some years. Although the refugees represent only about 2 per cent of the Hungarian population, the decrease ~~in~~ in the national income caused by their loss ^{might} amount to 3,5-4 per cent of the national income.

P. of intellectual work

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The non-fulfilment of the foreign-trade obligations.

The fact that the foreign trade obligations ^{WSE} had been not fulfilled for ~~months~~ two months and they are only partly fulfilled for a couple of months ~~and is much more~~ severe damages to the Hungarian economy as the amount of the Hungarian foreign trade would imply. The implications are so serious that they may endanger the equilibrium of Hungary's most important economic balances.

In this connection we have first mention the fines and ^{penalties to be paid} ~~taxes to pay~~ for the infringement of the contracts. The international law does not legitimize the "vis major" caused by the Revolution. Nevertheless from the viewpoint of the whole economy the most important consequence means a proportional decrease in the import. Hungary has no gold reserves, she has to pay for her imports by the commodities exported. The import-goods of Hungary are generally raw materials, machines and chemicals indispensable for the functioning of many industries. For various factories the suspension of the importation of materials or chemicals in the value of some thousand forints causes the loss of production in the value of some million forints. E.g. the importation of ~~the~~ bearings is indispensable for the Hungarian machine-industry. Although the Soviet-Union and some other communist countries promised some economic help for Hungary, the economic difficulties of these countries and the previous experience with these ^{aids} ~~helps~~ implies that we can not estimate a considerable help for the Hungarian foreign trade. On the other hand it is rather improbable that the Western countries would give help to the Kadar-regime, because the West does not want to support the new communist government in Hungary. The difficulties caused by the decrease of exportation (and importation) will be dealt with later on.

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Agriculture.

Agriculture is that part of the Hungarian economy which suffered the least important damages in the period of the Revolution. The situation is quite different in comparison with that after the World War II. During the World War II, a considerable part of the livestock was destroyed, confiscated or transported to Germany. A part of the agricultural machinery was also destroyed primarily during the fight in the years 1954-55. During the last year of the war there was not sowing ^{on some lands etc.} of crops etc.

The things were quite different during the Revolution. First of all the Revolution was not the time of important agricultural labour. Besides the farmers worked also during the winter fight and during the general strike, because the general opinion was that every form of work serving human nourishment ^{had} to be continued. The confiscations for the armies were insignificant. The Hungarian revolutionists got generally everything freely from the peasants but this did not amount to very much. The Russians had a strict order not to confiscate anything. The execution of this order was secured by the possibility of capital punishment. The damages to agricultural machines, livestock and crops during the fight were ^{quite} unimportant, because the fighting took place primarily during in the towns.

Nevertheless in some respects the Revolution had consequences in the agriculture too. These consequences may be summarized as follows:

1. In some state farms the work was interrupted for a time because a part of the laborers went back to private farming. In some places there were even attempts to dissolve state farms.

2. ~~Disorganization~~ A great part of the collective farms ^{was} dissolved.

3. The consumption of livestock increased a great deal during the Revolution.

4. The production of fertilizers decreased a great deal in the period of the Revolution. Similar is the case with the agricultural machines.

5. There were difficulties in the sugar industry.

6. The abolishment of the compulsory delivery will have serious consequences in connection with the price of agricultural production.

1. The state farms

During the period of the Revolution a part of the laborers left the state farms and intended to go back to private farming. In connection with this decrease of employees there was for a time a shortage in the labor power on the state farms. Nevertheless as we have already indicated above, the period of the Revolution did not coincide with that of the important agricultural years. Thus the transitional shortage of labor did not have serious consequences.

In some parts of the country there were attempts to dissolve the state farms. The laborers of the state farms in these regions intended to parcel the land of the state farms among themselves. These phenomena were ^{only} ~~also~~ local and lasted only till the second intervention of the Russians. Therefore the attempts to dissolve state farms had only minimal effects on the Hungarian agriculture.

The greatest part of the state farms worked further during the Revolution and in spite of the ~~immense~~ actual decrease in the labor power there were no serious impediments to the agricultural production. Thus there might be only a slight decrease in the agricultural production of the state farms in the year 1986/87 compared to the year 1985/86.

2. The collective farms

The situation on the collective farms differs a great deal from that previously described in connection with the state farms. The difference might be found chiefly in the human element. The laborers of the state farms were hired laborers, the great part of which never worked as an individual farmer and in many cases worked formerly on the former private estates. On the contrary the members of the kollektives had their own land before the collectivization, were accustomed to private farming and in most cases joined the collective farms because of the forced collectivization policy of the authorities.

In a former part of our study we had occasion to consider the results of forced collectivization in Hungary. Primarily the decrease of the productivity showed the bad results of the Hungarian collectivization policy.

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During the first days of the Revolution the peasants dissolved the greatest part of the kollektives and began to parcel the land among the members of the former kollektive farm. After the Soviet army had crushed the Revolution the Kadar regime tried to maintain the collective farms. Yet its efforts were only partly successful. Before the Revolution the collective farms represented about 20 per cent of the agricultural land in Hungary. According to the first reports during the Revolution this percentage was likely to increase to 2-3 per cent. The effort of the new communist regime impeded the dissolution of some of the collective farms, yet in accordance with official data about 50 per cent of the former kollektives ^{was} dissolved. Thus the relative share of the Hungarian kollektives represents about 10 per cent. The dissolution of this great number of collective farms has different consequences in the short run and in the long run. In the short run the consequences are mainly unfavorable, while in the long run they are favorable. In this connection we are considering the consequences from the viewpoint of the production.

In the short run the dissolution of the kollektives representing about 10 per cent of the Hungarian agriculture must have disturbing effects on the production. The change in the production on its side, the problems in the parceling of land, machinery and livestock, the inevitable interruption of the work for some weeks or even for months will decrease the production of the year 1956/57. These negative effects are aggravated by the efforts of the new communist government to maintain the kollektives that causes a period of uncertainty in the ^{work} of the farmers.

In the long run the dissolution of the half of the former collective farms will undoubtedly increase the production. The lack of incentive caused a great considerable decrease in the production of the collective farms. The opposite effect is probable after the partial liberalization described above. The peasants will be working with greater pleasure and effort on their own ^{lands}, than they did it formerly in the kollektives. Viewing the higher productivity of the individual farms in general we might expect the increase of production after about two years of time.

A further thing is that generally the viable kollektives ~~have not been dissolved~~.

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It is natural that the dissolution of the collective farms had begun with the farms that ~~shown~~ had showed the poorest results. Those with better production results remained together. That means an increase in the productivity of the kolхозes because the collective farms with lower production results were ~~being~~ dissolved.

excessive

3. The consumption of livestock.

The consumption of livestock increased in a great degree during the period of the Revolution. This phenomenon had different causes in the different phases of this period. The increase of consumption was considerable both in the towns as in the country.

In the first days of the Revolution the Nagy-regime increased the quantity of the livestock available for consumption in the towns to win the assistance of the people. After the Russian army crushed the Revolution the Kagar-government continued this policy. On the other hand the value of the forint having been unstable the population wished to spend its hoarded money, a great part of ~~that went to the buying~~ ^{was spent on} the production of meat and ^{poultry} ~~chickens~~, the consumption of which had been on a comparatively low level before the Revolution.

The consumption of the livestock increased in the villages too. The peasants - remembering the years 1904-05 consumed a much larger part of their livestock than ordinarily. This increase was similar in the different parts of the country.

The excessive consumption of livestock has serious consequences for ~~the~~ the cattle-breeding in the next few years. A considerable part of the livestock was consumed that would have ^{been} the basis for further breeding. As a result of the excessive consumption we may estimate the reduction in the cattle breeding of the next year to be about 15-20 per cent.

4. The shortage of fertilizers and agricultural machines.

The consequences of the decrease in the industrial production will be felt in the production of the agriculture in a round-about way. In connection with the reduction of the industrial production the production of the fertilizers and of the agricultural machines decreased too. From the viewpoint of the agricultural production the

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decrease in the production of the fertilizers may be more important. The new agricultural machinery would mean an increase in the productivity, thus here we are facing a situation that an possible increase will not take place. On the other hand the reduction in the production of the fertilizers reduces the agricultural production too, because the available quantity of the fertilizers decreases.

5. The situation in the sugar-industry.

In connection with the problems of the agriculture we have to mention the difficulties in the sugar-production too. The period of the Revolution coincided with the period of the sugar-production. The transportation of the sugar-beet was interrupted for weeks. On the other part the production of the sugar-factories was impeded by the lack of electric current too. In consequence of the lack of transportation facilities the sugar-beet lost a part of its sugar-contents. Another part of the sugar-beet was consumed by animals or got rotten.

The above-mentioned events might cause a 20-25 per cent reduction in the sugar production of Hungary in the year following the revolution.

6. Problems arising out of the abolition of compulsory delivery.

The compulsory delivery in the agriculture was abolished in the first days of the Revolution. The Kadar-regime ^{has} maintained this resolution. Nevertheless it is a question whether the Kadar regime ~~is~~ intended ~~to~~ find out another form of the compulsory delivery or not. If the abolition of the compulsory delivery will be really sustained then it will have important consequences on the agricultural price-systems and on the agricultural production.

~~Before~~ Prior to the Revolution there was a triple (or sometimes quadruple) price-system in the Hungarian agriculture. The three principal price-categories were the following:

1. The prices paid by the State for the products delivered in the scope of compulsory delivery.
2. The prices paid by the state for the quantity delivered in excess of the quantity prescribed.

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~~XXXXXXXXXX~~ 3. Prices paid on the free market.

The differences between the prices of the first resp. the second and the third category were quite considerable. On the other hand the price-difference between the second and the third categories were much smaller, and sometimes negligible. The cause was simple: if the state did not pay enough for the quantity not to be delivered compulsorily, the peasants might choose to sell it to individuals (That was not always so, because the free market was not at all complete. Generally the free selling of the agricultural products were not permitted until the county in question fully filled its compulsory delivery plan.)

To give an example, the prices of wheat were approximately as follows:

1. category: 80 Ft/q

2. " : 150 Ft/q

3. " : 200 Ft/q

The price-structure of the final products of agriculture: flour, sugar, eggs etc. were ^{very} uniform throughout the country. With negligible deviations the consumers paid the same price for the same products. It goes without saying that the prices of the seasonal products differed ^{through} per time. The difference between the prices paid by the consumers and those paid to the agricultural producers was going to the state.

A smaller part of this difference must was used for the commercial organisations having the task to buy from the peasants. ~~must~~ The greater part of this difference was nothing else as a form of tax.

After the abolishment of compulsory delivery the prices will be formed by supply and demand. This does not mean a formal equalisation of the former price categories, the new ~~immediate~~ price-level will be higher than the mathematical average of the different price-categories.

If we denote price with p , quantity with q , where $q_1 + q_2 + q_3 = q$

$$\frac{p_1 q_1 + p_2 q_2 + p_3 q_3}{q_1 + q_2 + q_3} \approx \frac{\sum p q}{\sum q}$$

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With other words: the new price multiplied with the quantity sold will give a ~~greater~~ ~~sum~~ higher amount than the former prices multiplied by the sold quantities and added together.

This phenomenon has two causes:

1. The psychology of the sellers involves that the new prices will be nearer to the former free-market prices, than to the prices paid formerly by the state for compulsory delivery.

2. The supply of the agricultural products is not sufficient to reduce the level of the prices.

Our former conclusion was that the new level of the prices multiplied by the quantity sold i.e. the brutto income of the peasantry will increase. On the other hand the state intends to maintain the prices of the final agricultural products to avoid inflation. This signifies a reduction in the price-margin i.e. the consumption-tax levied on the production of the agriculture. To maintain the income of the state out of the agriculture the state would have to counterbalance this reduction by an income-tax levied on the peasants. Without this tax not only the brutto income, but also the net income of the farmers will increase, representing a change in the income-distribution and a decline in the tax-income of the state. In contrast with this - because of the psychological effects - the state can not reduce considerably the income-tax of the peasantry at a degree that ^{would signify} ~~permits~~ the maintenance of the former tax income from the agriculture. Thus we might conclude that in connection with the new price level the income of the farmers will increase and the tax income from the agriculture will decrease. This signifies a decrease in the relative incomes of the other classes and requires a cut in the state expenses.

The abolition of the compulsory delivery ^{likely} signifies on the other hand a probable increase in the agricultural production. The rise of the agricultural prices, the abolition of the compulsory element will increase the production-efforts of the peasantry.

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The estimated change in the agricultural production in the year following the Revolution

We have seen above some factors influencing the agricultural production in the years following the Revolution. In the long run we might expect an increase in the agricultural production taken into account the abolition of the compulsive delivery and the liberalization in the agricultural policy. Nevertheless this long run increase of the production might be endangered by the reconstitution of the compulsive delivery and the collectivization policy.

In the short run, primarily in the first year we expect a slight decrease of the production. Some factors involve an increase, but the factors causing a decrease are more important. The decentralization policy of liberalization has favorable effects on the production, yet the difficulties about the fertilizer-production, the excessive consumption of livestock and transiently the dissolution of the kolхозes are causing a decrease in the production.

Taken together one might expect about a 10 per cent decrease of the agricultural production in the year following the Revolution.

Mining

The mining industry suffered considerable damages during the fighting and the period of the general strike. In Hungary the importance of coal-mining is of first importance. The production of iron ore is not considerable. The bauxite-industry, which has also some importance in Hungary had not suffered only negligible damages. Thus in the following we shall deal with coal-mining. Yet in connection with coal-mining we have to consider the whole problem of energy supply.

The sources of energy.

The three main sources of energy are in Hungary the followings: water-energy, oil and coal.

Of the three sources of energy the electricity supplied by the water-electricity works is of the least importance. It satisfies only local needs. The two quantitatively

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important sources are the coal and the oil.

The oil-production.

The oil-production of Hungary increased in the last years rather considerably. This increase was ^{excessive} got mainly due to the exploitation of the oil-fields. The consequences already of the excessive exploitation of the oil-fields were perceptible before the Revolution. The Rakosi-regime did not bother itself about the maintenance of the oil-fields, ^{had been} the sharp increase of the production ~~was~~ the first goal without taking into consideration the consequences of the over-working ~~all~~ the fields.

In 1949 the oil-production of Hungary amounted to 0,5 million tons. The production increased till 1955 to 1,5 million tons. Yet the consequences of the exhaustion of the oil-springs ^{was} were in a great degree perceptible in the first half of 1956. In this period the oil-production declined to a very low level etc about 0,4 million tons per year. This fact - due to the watering of the springs - caused great difficulties: a considerable part of the buses was shut down in the country, factories using oil as energy had a standstill for a time, export-obligations could not be fulfilled etc.

During the ~~2~~¹/₂ night a part of the oil-fields exploded. The exhaustion of the oil-fields will impede the oil-production in the next years. Yet we might expect a gradual increase and in 1957 the expected production-level might be about 1,0 million tons per year.

The coal-production before the Revolution

The coal-production increased in a great degree in the last years. Yet the cause of this increase was rather the increase of the number of the miners, the exhaustion of the old pits, the production of coal of bad quality, than the use of new, better technique.

This rise of the coal-production from 1949 (11,8 million tons) ~~amounted~~ until 1954 (22,0 million tons) amounted to 182 per cent. But the increase of the coal-production measured in 6000 cal/kg coal was only 89 per cent. In truth the increase of production was even less, because the ^{production-data} ~~data~~ were partly falsified. The coal of

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lower quality was counted with greater quality contents to show the fulfillment of the plan, ~~already in the mines~~. According to experts the increase of the coal-production amounted only to 40-44 per cent in the above-mentioned period.

The consequences of the Revolution on the coal-production.

The Revolution caused a considerable decrease in the coal-production of Hungary. This reduction has different causes: the diminution of the production during the fight, the general-strike, the neglect of the work vital for the maintenance of the pits, the decrease in the number of workers, the decline of productivity etc. Yet the decline has been partly due to the exhaustion of the old pits ~~before the Revolution~~ in the period before the Revolution.

In the first ~~max~~ two months after the Revolution the coal-production amounted to only 15 per cent of the former monthly average (1,8 million tons) i.e. about 0,3 million tons monthly. This production could only partly satisfy the demand for electric current. In that period the miners did not want to produce more than the quantity sufficient for the electricity consumption of the population.

In the next four months the formerly mentioned causes kept the coal-production on a relatively low level. We must emphasize the effect of the temporarily neglect of maintenance works, which rendered the mining more difficult and cause additional costs. The estimated quantity of production is about 50-60 per cent.

In the last six months of the year following the Revolution the consequences of the above-mentioned causes will be still perceptible and it is probable that the coal-production will not reach 80 per cent of the former monthly average.

Summary of the year beginning with the outbreak of the Revolution

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the coal production might reach about 60 per cent of the production in the previous year. The decrease in the oil-production further impairs the energy-situation. If there will be no coal-import in this period this decrease will have farreaching consequences for the whole Hungarian economy.

Metallurgy.

The metallurgy suffered in the period of the Revolution in a similar degree as the coal industry. Additional disturbance was caused by the fact that about a third of the furnaces in the iron and steel industry froze in because of the discontinuation of ~~the~~ work. These ^{are} furnaces ~~had~~ to be constructed anew. Similar is the situation in the aluminum industry.

In the months following the Revolution the unsufficient coal-supply causes the stand-still of a considerable part of the metallurgy. The policy of the Hungarian authorities aims the maximum employment of the workers with the existing coal-supply, therefore primarily the production of the metallurgy has been cut down, where the coal-consumption is the greatest. The iron and steel production in the first year after the Revolution might be estimated in 50 per cent of the production in the former year. The consequences of the cut down in the metallurgy are not so serious from the standpoint of the economy as those of the decrease in the coal-production, because neglecting the armament expenditures, the steel and iron requirement decreases in a great degree. nevertheless in the metal and machinery industry the decline of the iron and steel production will be perceptible.

Industry.

The consequences of the Revolution are different for the various branches

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ches of the industry.

The decrease of the production will be the greatest in the metal and machinery industry mainly due to the shortage in coal, iron and steel. We might estimate the decrease of production in this industry for 40 per cent.

In the chemical industry the shortage of coal will have important consequences, furthermore the difficulties in the import of some materials needed by the chemical industry. The decrease of production might be estimated ^{for} 40 per cent.

In the wood and paper, textile and leather industry the difficulties with the import of raw materials might cause together with the almost two months of standstill a decrease of 25-30 per cent.

The decline of production will be the less in the food-industry, the majority of the factories in this industry worked also during the Revolution. The estimated decrease is about 15 per cent.

In the other industries we might estimate a 20-30 per cent decrease of the production.

Considering the decrease of production in the different branches of production we must take into account the interconnection of the industries, the cumulative effects of the shortages. All in all we might estimate 30 per cent decrease in the whole Hungarian industry.

the production of

Construction

The main difficulties ~~causes~~ causes of the decrease in the production of the construction industry in the first year of the Revolution might be viewed in the standstill during the fight and the general strike ⁱⁿ, the shortage of manpower, in the shortage of material and in the decline of the investment activity.

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In the construction-industry ~~the~~ it is more difficult to begin the work after a standstill of many weeks. The construction-workers are living generally far from the working-place and in the time following the Revolution with the uncertain transportation facilities they preferred to stay home. The difficulties of transportation hindered the supply of material too. Consequently the start of the construction work took a longer time, than in the industry.

In the year 1957 it is probable that the need for agricultural products and the relative decrease in the real wages will induce a part of the workers to go back to agriculture. Because the workers of the construction industry ~~was~~ were recruited from the agriculture, it is conceivable that the workers will return principally from here to the agriculture.

In the year following the Revolution the shortage of materials will greatly impede the ~~next~~ construction-work. On the one hand the production of building materials will considerably decrease due to the shortage in coal, on the other hand the lack of transportation facilities will aggravate the material-supply of the construction industry.

Abstracting from the formerly mentioned factors the great diminution of the national income forces the government to cut the investment activity. Taking into account that ~~the~~ construction represents the overwhelming part of the investment activity in Hungary we might count ~~with~~ - taking into consideration the formerly mentioned factors too - with ^a 50 per cent decrease in the construction-activity. Yet a part of the construction work has to be employed for the restoration of the buildings destroyed or damaged during the fight.

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Transportation.

The damages to railways and other transportation facilities were quite unimportant during the fight. The problems of transportation are mainly caused by the shortage of coal. That is why we calculate with a 30 per cent decrease in the transportation activity.

National income.

Summarising the data estimated for the different activities and supposing that the change in commerce is proportional to the change of the national income we get the following figures regarding the decrease of the national income due to the Revolution in the year following the outbreak of the Revolution:

Agriculture	10 %
Mining	40 %
Metallurgy	50 %
Industry	30 %
Construction	40 %
Transportation	30 %

Taking into consideration the share of the different activities in the national income, the estimated decrease of the whole national income is about 30 per cent. As we shall see in the followings this decrease causes considerable variations in the distribution of the national income.

Taking again as basis the national income in the size of Ft 60 billion⁸ the decrease in the national income in the year following the Revolution might be estimated in Ft 18 billion. Besides the restoration costs of the destroyed and damaged houses, the frozen furnaces and the neglected pits might amount to Ft 3-4 billion⁸. These costs will figure in the gross investment of the subsequent period. The total damage

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evaluated in \$, taking into consideration the relative purchasing power of \$ and Ft. might be evaluated in ~~194~~ \$ 1,1 billions.

The distribution of the national income.

Although there are neither reliable data nor trustworthy estimates regarding the distribution of national income, for the sake of evaluating the necessary changes in the different components of the national income, we might use a rough estimate here:

consumption	55 %
investment	13 %
public expenses	12 %
armament	15 %

As we have seen before the estimated decrease of national income is 30 %. The decrease ~~in~~ the different components of it might be estimated as follows:

consumption	16 %
investment	50 %
public expenses	30 %
armament	60 %

The decrease of investment is really greater because the restoration of the different damages involves part of the investment activity, the considerable cut of armament is probable although the commitments of the Warsaw-contract are binding. The decrease of public expenses reveals a cut in the bureaucratic apparatus. Besides these decreases ~~it is necessary~~ regarding the decrease of ~~the~~ national income ~~that there will be~~ a quite considerable reduction in consumption and thus in the standard of living *is also necessary*. The decrease in consumption and in the ^{level} standard of living reveals itself in two forms. Because psychological causes impede the cut of

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the inevitable decrease which takes place through the increasing unemployment and through the inflation process.

XV. THE ECONOMIC PROGRAM OF THE HUNGARIAN REVOLUTION.

The goals of the economic program of the Revolution.

The failure of the communist economic system was obvious. The Hungarian Revolution had to determine the economic policy to be followed for the sake of reconstruction and development of the Hungarian economy. During the short period when the revolutionary forces were in power and it seemed that the victory over communism was final, in the days before the Russian army crushed the Revolution, a systematic work was begun to cope with the situation and to determine the short run and the long run economic program of the Revolution. Primarily the short run plans were finished ^{drafted} in the short time available, but the plans could not be carried out because of the second intervention of the Red Army on the 4th of November.

It is a question whether the economic plans of a short-lived government ^{or} of any interest is or not. In our opinion we have to answer this question in the affirmative. First of all the program aimed at an individual road of economic development in between capitalism and socialism, second: it shows an experiment to the economic democratization of a communist country. The economic democratization would be a difficult problem for the free world after the eventual political

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democratization of the satellite countries. The economic program of the Hungarian Revolution was the first attempt to cope with this problem. The economic plans were elaborated by a committee comprising the best Hungarian economists and were already partly approved by the different parties composing the government. There were differences in the opinion of different groups concerning some particular questions but in the main line of the program the differences were unsubstantial.

Examining the economic program we have to take into consideration that the existing situation showed a ~~planned~~ planned socialist economy of about eight years. The plan aimed at the increase of the standard of living, the encouragement of the private initiative and the liberalization of the bureaucratic and rigid planning system. The principal aim of the plan was the increase of the living standards and deciding about the means this aim was primarily taken into account.

Agriculture.

In the agriculture far-reaching liberalization was planned. The permission to break up the collective farms was the first step. The results of the ^{last} ~~last~~ years had showed that the collectives ^{were} in general not viable. As we have ~~regularly~~ seen the productivity of the ~~existing~~ state farms was by about 20 per cent, the productivity of the individual farms by about 50 per cent higher than that of the collective farms. Besides the collectivization was enforced by different means (political pressure, taxation etc.). The peasants had ^{the} purpose to return to individual farming. According to reliable sources only about 10 per cent of the collective farms would ~~not be~~ dissolved. That would mean ^{the} decrease of the land of kolkhozes from 20 per cent to 2 per cent. (After the Russian army had crushed the Revolution still only 50 per cent of the collective farms were not dissolved.)

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The state farms were intended to be retained, ~~not~~ primarily for special purposes: to grow seed etc. Yet it ~~was~~ planned to lease the state farms working with ~~constant~~ permanent deficit.

An important part of the plan for agriculture was the retention of the tractor and machine stations. It was not feasible that the Hungarian farmers would be able to buy machinery in a reasonable time. The tractor and machine-stations would be operated ~~by them~~ on a lend and lease basis.

The land-reform of the year 1945 was not to be affected. There was no talk about the restitution of the land to the former landowner-classes. Yet it was planned to compensate the farmers for the confiscation of their property during the last 6-8 years. The compensation was to be given in natura out of the state farms.

The free purchase and sale of land was planned. Furthermore a radical change in the tax-system. The compulsory delivery was abolished in the first days of the Revolution.

~~Further~~ Mining and Metallurgy.

Both in mining and in metallurgy the ~~extensive~~ maintenance of nationalization was planned. In the iron- and steel industry the shutdown of the new high-cost ~~iron~~ steel plant at Stalinváros was considered, because the production of this plant was ~~not~~ necessary for peaceful purposes.

Industry

In the industry was also the maintenance of ^{was} nationalization planned. The fusion of the former capitalist enterprises, the wearing out of the old machines, ^{the new investments made the restoration of the} ~~the old machines, the loss of the old machines, the loss of the old machines~~ enterprises ~~impossible~~. Besides the workers held the view that the

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enterprises belong to them and did not want to reconstitute these in the hands of the capitalists. The direction of the industrial enterprises was planned in conformity with the Yugoslav method: direction by the workers' councils resp. the management hired by the workers' councils. Yet important changes were considered in comparison with the Yugoslav system too. The government intended ^{not to hinder} the private initiative in the establishment of new enterprises. It was considered to give concessions for foreign private capital to build new factories. Some non-lucrative state enterprises were considered to be leased to foreigners. Thus the new system would mean a certain competition between firms directed by the workers' councils and ~~between~~ private firms. The private initiative would be strengthened in the former ~~form~~ ^{state} of enterprises too, because the workers would be directly interested in achieving profits for the enterprise and for themselves. In a later date the gradual restitution of the free price formation was planned.

Construction.

The construction industry requires ~~much~~ less amount of capital per worker than the different branches of the industry. Therefore here would be possible to establish private enterprises ~~from~~ in the first time. The state enterprises would have the task to construct some big projects, but the revival of the private enterprises would be very quick.

Commerce.

The denationalisation of ~~regional~~ trade would be achieved ~~hand~~ in hand with the revival of the small-scale industry. The problem of the liberalisation of wholesale trade was not yet decided. It seems probable that at a later date the wholesale trade would be liberalized too.

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Foreign trade.

The problem of foreign trade was not yet solved. Similarly to the wholesale trade it is probable that the foreign trade would be liberalized at a later date.

Financial policy.

In the field of the finances the greatest problem was the fight against inflation. The economic consequences of the communist policy in the last years, the destruction during the armed fight, the demand of the workers for a higher standard of living, the stillstand of production during the fight caused substantial financial problems for the young Hungarian democratic state. Yet by the reduction of the bureaucracy, parsimony in the state expenses, abolition of armament and temporary reduction of the investments and foreign loan the danger of inflation would be removed.

A substantial foreign loan would be not only for the removal of the danger of inflation, but also for the development of the Hungarian economy inevitable. The blunders of the communist economic policy had caused a most serious situation in the Hungarian economy. Foreign loans would be made possible the solution of some of the most important problems.

Economic Policy.

The economic policy of the Revolution intended to lay great stress on the development of the Hungarian agriculture and light industry. In these branches of production Hungary has competitive advantage over other countries and with relatively small amounts of capital substantial improvements might be achieved. In the agriculture the intensive cultivation of the soil, the growing of vegetables, the horticulture,

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fruit and vineyards would be developed. In the industry the development of the textile and light engineering industry was primarily considered. The restoration of normal trade relations with the Western and overseas countries was planned. An important goal was the development of the uranium-mines selling the uranium on the world-market.

The planning methods.

The direction of the Hungarian economy was in the following manner imagined: A Planning Board would have to make the principal decisions. The ministries dealing with economic problems would be put under the authority of the Planning Board. The number of the ministries would be reduced by about 50 per cent with 70-80 per cent reduction in the number of administrative employees. Although the direction of the national economy would be centralized, the enterprises would be relieved from most forms of the former central direction. The tasks of the planning authorities would be narrowed and limited ^{to} for the following: Elaboration of the economic balances, determination of the principal goals of the economy, direction and later control of the main investments, for a transitional period: distribution of the most important materials, determination of the price of some products (e.g. coal, steel etc.) The wages would have to be determined by collective contracts between the enterprises and the trade unions. The production of the enterprises, the sale of the products, the determination of the prices of most of the products would be not placed under the authority of the Planning Board. Considering the catastrophic economic situation ~~surrounding~~ and the bottlenecks in almost every part of the economy for the first period the Planning Board would have assumed ~~great~~ important responsibilities concerning the direction of investments, distribution of mate-

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rials and determination of prices. In these respects only gradual liberalization was planned.

It is quite conceivable that the economic plans of the Hungarian Revolution summarized above would be considerably changed in the course of actual performance. Yet the plans in the first form signify an important contribution towards the problems of future economic liberalization in the Hungarian economy.

XV. A SOLUTION FOR THE RECONSTRUCTION .

The economic policy of the new communist regime.

After the Russian army had crushed the Hungarian Revolution a new period of communist leadership began. In the first time the new communist regime made some concessions, later most of the concessions were withdrawn or are in the stadium of withdrawal.

Concessions were made primarily in the agriculture. The abolition of the compulsory delivery was retained by the new communist government and there were no considerable hindrances in the way of dissolution of the collective farms. Yet the preferential^{it} taxation-system for the collective farms was maintained and after a short period the political pressure for the maintenance of the kolkhozes was resumed. In connection with this only about half of the collective farms were dissolved. In the near future new efforts of the communist regime are probable to strengthen the collectivist system in the agriculture. Instead of the compulsory delivery the elaboration^a of new system is under way to ensure that the overwhelming part of the crop would be sold to the state and that the income of the state from the agriculture would not decrease.

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In the industry the communist regime promised to give more right to the workers' councils in the direction of the enterprises and to reduce the bureaucracy. In fact there is no considerable change in the planning methods, the principal decisions are still not being made by the enterprises but by the planning authorities. The promised rights of the workers' economic committee has been curtailed. There is a reduction in the number of administrative employees, yet the load of bureaucracy had not decreased in the degree promised.

The changes in the economic policy are only transitory. The principal goals are unchanged, although some of them are not emphasized now: the direction of the economy with Soviet-methods, the collectivization of the agriculture, development of the heavy industry, armament, not to give possibility to the private initiative, maintenance of a highly centralized planning system.

In the framework of collectivist economic planning the reconstruction of the Hungarian economy achieving the goals reviewed in the former chapter is not feasible. Not only because of the deficiencies of collectivist economic planning, but also in consequence of psychological factors. The overwhelming majority of the population is hostile towards the communist regime and tries to hinder the achievement of the goals of the communist economic policy. There is no solution for the problem of private initiative and for the harmony of the state- and private interest. These circumstances will furthermore hinder the growth and the smooth fonctionnement of the Hungarian economy.

The basis for economic reconstruction: political liberalisation.

The future work of economic reconstruction can not be properly achieved in the framework of the collectivist system. The first step towards

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real economic reconstruction, towards the optimum exploitation of the economic resources must be the political liberalization in Hungary.

Through political liberalization we might achieve the self-decision of the people concerning the principal economic problems. The people might voice its wishes through a democratic political system. It is feasible for instance that the majority of the Hungarian population will approve the land-reform of 1945, will not intend to reconstitute the capitalist enterprises to their former owners, but on the other hand will accept the establishment of new private enterprises and the restitution of free price-formation and competition between the enterprises.

The political democracy has also psychological importance. The people seeing the achievement of its own intentions gives support to carry out the same goals. Besides the self-reliance is increasing and the belief in the future gives important help in the field of economic activity.

It is relatively easy to achieve political democracy. The Hungarian people has ~~shown~~ already shown not only in the Revolution but also before its democratic nature. It is a question of months to establish democratic parties, democratic elections and democratic institutions. It is much more difficult to achieve economic liberalization ~~immediately~~ after an eight-years period of economic planning. The main obstacles towards economic liberalization are the socialization of the enterprises, the centralized planning for eight years, the bureaucratic apparatus etc. The possibilities towards an economic liberalization are different e.g. in Hungary and in East-Germany. Beside East-Germany there is the West-German state with its 50 million inhabitants and liberal economic system. The economy of East Germany with ~~its~~ its

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~~13 millions inhabitants has to be adjusted to West-Germany.~~

13 millions inhabitants has to be adjusted to West-Germany. In the case of Hungary there is no such possibility. A new economic system has to be established taking into consideration not only the goals of the economy but also the existing structure.

The goals of economic reconstruction.

For a solution of economic reconstruction the program of the Hungarian Revolution has to serve as starting-point. This program contained some of the principal problems and methods for the reconstruction. Yet it was only a short-run plan, it dealt with the immediate problems arising from the situation of the Hungarian economy. Nevertheless it did not fail to cope with the fundamental problems.

The short-run plan for reconstruction should be made on the basis of the economic program of the Revolution. Some of the long-run objective can be also decided at the beginning. Yet regarding the long-run economic policy the experience in the process of carrying out the economic rehabilitation should be taken into consideration. That means a somewhat experimental feature of the work of economic reconstruction. This characteristic is self-evident because the economy has not only to be directed on a new road, but formerly the new road has to be built. It will be an important task of the economic policy to achieve this "experimentation" with the less possible losses and difficulties for the economy. We must stress the importance of the gradual changes. It is conspicuous that abrupt changes in the structure of the economy would do much harm, while gradual changes ensure the smooth development of the economy.

The principal goals of economic reconstruction might be paraphrased as follows: full employment of the working power and full use of the capacity, optimum distribution of the resources, increase in the productivity, modernization of the productive equipment, increase of the

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last chapter. On the other hand it is indispensable to reconstitute the private small-scale enterprises socialized after 1949, and give help to the new private enterprises.

The problems of the formerly confiscated and socialized enterprises are considerable, but they are to be solved ^{within} in a short period of time to achieve social peace and order.

It is a separate question the property-problem of the state-owned enterprises. It seems to be the most suitable method to retain these enterprises in the property of the state, lease them to the workers' council which represent the workers and later sell the shares of the enterprises to the workers or give some of the shares in the form of premium to them.

Furthermore it is indispensable to establish new, private enterprises and to guarantee the property of these enterprises.

The competition-problem.

The lack of competition is one of the greatest deficiencies of the collectivistic economic system. Therefore it is of great importance to reconstitute competition between the enterprises as soon as possible.

The competition might as well function between state-owned and private enterprises. It is conceivable the elimination of the state-owned enterprises in such spheres, where much flexibility is needed.

There is only one sphere of economic activity where the private enterprises are not probable to be permitted to function: in mining and metallurgy.

In the new economic situation the role of the managers will be increasing. The state-owned enterprises are feasible to be directed by managers hired by the workers' councils. We might speak about a new "mana-

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gerial revolution" in the liberalized economy of the former communist states. It is a serious task to ensure the ~~inter~~ private interest of the managers in the increase of productivity, decrease of costs and modernisation of the factories. Yet it seems that with competition between the enterprises and free formation of the prices it ~~is~~ will be possible to solve this problem too.

The price-problem.

Instead of the price-determination by the planning authorities it is indispensable to return gradually to the free formation of ~~goods~~ the prices on the market.

In the first period of economic reconstruction ~~there~~ a considerable part of the prices will be still fixed by central authorities, yet in the course of economic development this sphere will diminish and after the shortages in the principal materials will cease to exist, the free price formation ^{has} to be restored. One possible exception will be the sphere of mining and metallurgy where the prices of the state-owned enterprises will be fixed by the planning authorities.

The market forces (supply and demand) through their effect on the prices will ultimately determine the production too. It is quite conceivable that in this connection the state will influence the production and price-formation taking into consideration the desirability of the consumption of some products (alcoholic beverages etc.) through turnover-taxes. Yet this is not to disturb the functioning of the market and through the market we might achieve an optimal distribution of the resources and the ultimate influence of consumption on the productive activity.

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The role of the state

The last two decades have shown considerable changes in the role of the state regarding economic activity in the capitalist countries themselves. The state is no more only the guard of order and security, its role in the protection, control and sometimes direction of economic activity has grown in a great degree. The corrective role of the state is the strongest in the insurance of full employment.

In the capitalist countries the newly emerged role of the state is not at all uniform. In some countries the state has directive role in the principal questions of the economy and the economic activity is in a more or less degree planned by government authorities. The state ~~assumes~~ assumes new role in some fields heretofore regarded as the field of private activity: e.g. investment, foreign trade etc. These forms of state activity are to be found e.g. in England, the Netherlands, Sweden etc.

In other capitalist countries (e.g. U.S., West-Germany) the state has no directive role but it undertook the task to ensure full employment and to encourage development. Principally through the budget and the central-bank policy the state has become a decisive factor in the economy. Yet this does not seriously interfere with the competition between the enterprises and the free formation of the prices.

The directive role of the state in the first group of the capitalist countries is partly the consequence of the afterwar situation. With the growth of the economic connections between the different countries it seems probable that the directive role of the state will decrease and the countries of the first group will approach the situation in the countries of the second group regarding state activity in the economic life.

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\$ 1 billion for the rehabilitation of the damages due to the Revolution and \$ 2-3 billion for the development of the economy. It goes without saying that this period might be only transitory, the goal is that Hungary become a part of the European economic system, because this ensures the most economical exploitation of the resources. This development requires considerable changes in the structure of the economy. Some branches of the industry ^{will} have to be cut down, other branches of the economy ^{will} have to be expanded. The abolition of the autarky is not an easy task. Yet the insertion to the European economic system ensures the development of the Hungarian economy.